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**EMI Group**

EMI is the only major company focused purely on artists and music

Turnover £2,445.8m;  
operating profit £190.9m

Dividend rebased to balance shareholder returns and investment needs

Balance sheet now significantly strengthened through a refinancing for longer-term facilities and the use of the proceeds from the HMV flotation to repay debt

**Recorded Music**

Fundamental strengths: a world-class artist roster, breadth and depth of repertoire and an outstanding catalogue

New management team now in place under Alain Levy and David Munns

Restructuring plan on track to generate £98.5m annualised cost savings and reposition the business for future growth

**Music Publishing**

World's biggest and best music publishing company

Excellent roster of hit songwriters, broad revenue base, deep catalogue, strong cash generation

Once again produced excellent results and good growth across all income types

**Financial Summary**

	Year ended 31 March 2002 £m	Year ended 31 March 2001 £m
Group turnover	2,445.8	2,672.7
EBITDA (i)	241.9	389.5
Group operating profit (EBITA) (ii)	190.9	332.5
Adjusted PBT (iii)	153.3	259.5
Adjusted diluted earnings per share (iv)	11.8p	21.9p
Dividends per share	8.0p	16.0p
Return on sales (v)	7.8%	12.4%
Interest cover (vi)	4.0x	5.2x

(i) EBITDA is Group operating profit before operating exceptional items, depreciation and amortisation of goodwill and music copyrights.

(ii) Group operating profit (EBITA) is Group operating profit before operating exceptional items and amortisation.

(iii) Adjusted PBT is profit before taxation, exceptional items and amortisation and is before both operating and non-operating exceptional items and amortisation of goodwill and music copyrights.

(iv) Adjusted diluted earnings per share is before both operating and non-operating exceptional items and amortisation of goodwill and music copyrights.

(v) Return on sales is defined as Group operating profit before operating exceptional items and amortisation of goodwill and music copyrights as a percentage of turnover.

(vi) Interest cover is defined as the number of times Group EBITDA is greater than Group finance charges.



Eric Nicoli  
Chairman, EMI Group

From an operating and trading perspective, the past year was especially challenging, characterised by market weakness in some regions and our own underperformance in Recorded Music. But it was also a year when Music Publishing and parts of our Recorded Music business – in particular our UK labels – achieved great success.

At a strategic level, we took swift action to address the weaknesses in our Recorded Music division, introducing a new management team under Alain Levy and implementing a far-reaching restructuring plan. The first phase of this plan, unveiled on 20 March 2002, is designed to establish a solid platform for future growth and to improve profits substantially and rapidly. Further details are set out between pages 6 and 7. We are pleased to report that this plan is progressing well and will allow us to build on the fundamental strengths of EMI Recorded Music worldwide – an excellent artist roster, breadth and depth of repertoire and an outstanding catalogue.

We have also significantly strengthened our balance sheet. Since the year end, we have completed a refinancing which extends the term of our bank debt and has allowed us to broaden our sources of debt finance into the bond market. We have also realised a significant proportion of our stake in HMV Group.

Moving to the group numbers, turnover in the year decreased 8.5% to £2,445.8m, and group operating profit (EBITA) fell 42.6% to £190.9m. As explained in our announcement on 5 February 2002, the decrease in group sales and profit this year related entirely to Recorded Music, where turnover fell by 11.1% to £2,029.4m, and operating profit (EBITA) dropped by £144.4m to £83.1m.

The principal causes of this setback were a poor performance in the United States, release schedule slippage and market weakness in Japan, and the regional economic downturn in Latin America. Although falls in these areas far outweighed gains in others, we did have commendable performances in the UK, France and, within North America, Christian Music, Capitol Nashville and the Canadian business.

Notwithstanding the weaknesses in the global record market, EMI Music Publishing had another excellent year. Turnover increased 6.6%, and operating profit (EBITA) grew 27%. The size and quality of our catalogue and our impressive roster of songwriters, combined with skilful and active management of both current and past hits, enabled us to expand our position as the global market leader. Our songwriters picked up numerous awards and we were once again named Music Publisher of the Year in all important territories.

The fall in group operating profit indicated above was partially offset by a drop in interest charges resulting from lower average interest rates and by an improved contribution from HMV Group.

Profit before tax, amortisation and exceptional items was £153.3m in the year ended 31 March 2002, slightly above our earlier indications, but down from £259.5m in the previous year. As a result, adjusted diluted earnings per share decreased to 11.8p from 21.9p.

As indicated in March 2002, there is an exceptional charge in the year of £242.4m relating principally to the restructuring and rationalisation of the Recorded Music business. This restructuring is expected to deliver annualised cost savings of almost £100m, the great majority of which will arise in the current financial year. In addition, HMV Group incurred an exceptional charge in the year, of which EMI's share was £12.4m.

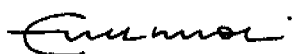
To maintain an appropriate balance between dividends to shareholders and retaining capital to invest in the business, the Board has decided to rebase the annual dividend. Accordingly, as announced in March, the Board is proposing a final dividend of 3.75p per share, making the total 8p per share for the year ended 31 March 2002 compared with 16p last year. Looking forward, the Board will consider the level of dividend in the light of progress within the business.

On 15 May 2002, HMV Group floated on the London Stock Exchange. On flotation, EMI realised £122.9m in cash and retained a 14.5% holding in the company; a further payment of £19.4m is expected to be made in July in respect of the repayment of senior preference shares. EMI acquired its original stake in HMV Group for £96.5m, having sold the HMV music retailing and Dillon's book retailing businesses to a management buy-out in March 1998.

This has been a year of challenges and change for our employees. I thank all my colleagues for their continued dedication and hard work.

In the year just ended there were a number of changes to the Board. Alain Levy joined in October 2001, succeeding Ken Berry, and Roger Faxon joined in February 2002 on his appointment as Group Chief Financial Officer, replacing Tony Bates. Roger joined EMI in 1994 and, before taking up his current role, was Executive Vice President and Chief Financial Officer of EMI Music Publishing. Finally, Michael Jackson resigned from his position as a Non-executive Director on 7 May 2002 to avoid a potential conflict of interest.

Looking forward, we are now well equipped to exploit the opportunities and face the challenges presented by a world music market that, in the future, will be more competitive and more dynamic than ever before. Our restructuring plans for Recorded Music are on track and our Music Publishing business continues to flourish. Shareholders can, therefore, expect a substantial improvement in operating performance in the year ahead. Longer term, by focusing on fundamentals and investing in creative excellence, we intend to deliver sustained sales and profit growth.



Eric Nicoli  
Chairman

**WE ARE REPOSITIONING  
EMI RECORDED MUSIC  
FOR FUTURE GROWTH. OUR  
RESTRUCTURING PLAN IS ON  
TRACK TO GENERATE COST  
SAVINGS OF £98.5 MILLION.**

**NOW WE ARE FOCUSING  
ON CREATIVITY AND  
MARKETING—BY DEVELOPING  
ARTISTS AND BREAKING  
THEM ON A WORLDWIDE  
BASIS, EMI WILL BE  
A STRONGER COMPANY.**



Robbie Williams  
The Sound of Love  
Atlantic



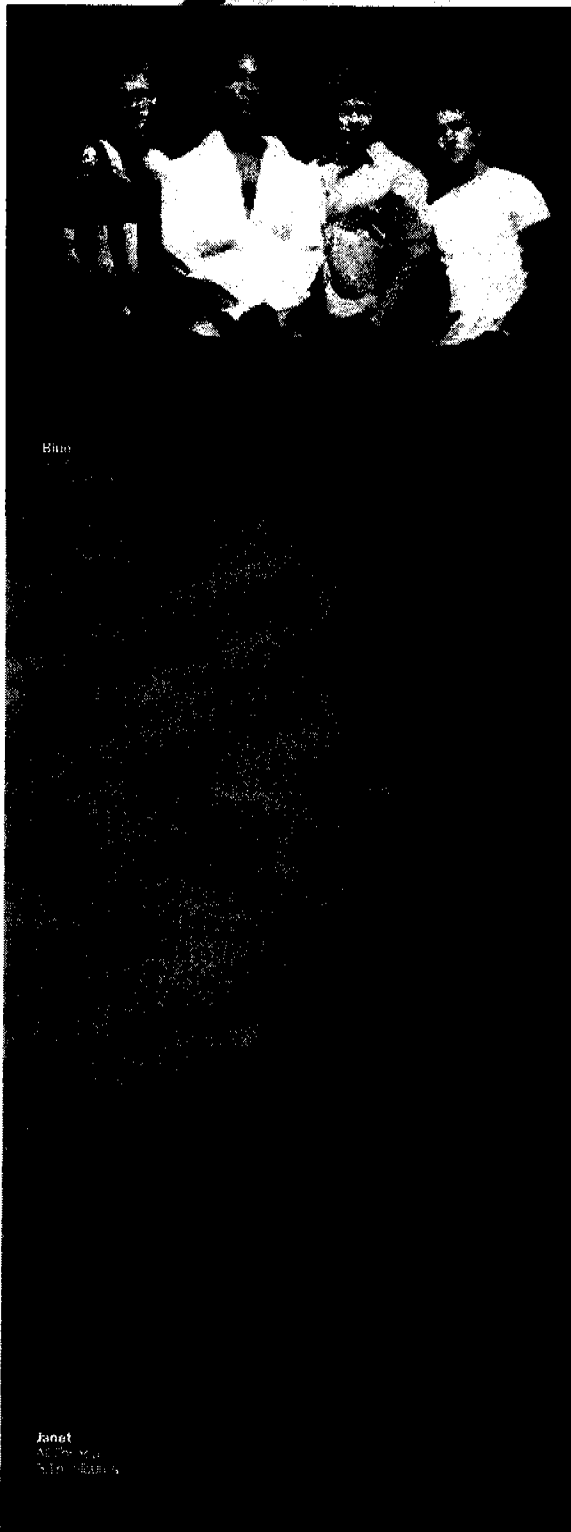
Pink Floyd  
The Division Bell  
Capitol



Kylie Minogue  
 Fever  
 3.6m albums



Manu Chao  
 Pasa Doble  
 0.2m albums



Blur  
 11m albums



Lenny Kravitz  
 Lenny  
 2.5m albums

Janet  
 All Time  
 5.1m albums





Utada Hikaru  
11.10.04



Radiohead  
11.10.04



Garth Brooks  
11.10.04



Aaliyah  
11.10.04



Gorillaz  
11.10.04

**RICHARD ASHCROFT  
ATOMIC KITTEN  
AXELLE RED  
BLUE  
COLDPLAY  
SNOOP DOGG  
DOVES  
BRYAN FERRY  
ED HARCOURT  
KENNEDY  
MASSIVE ATTACK  
MOBY  
CHIIRO ONITSUKA  
BETH ORTON  
LIZ PHAIR  
SIR SIMON RATTLE  
ROXETTE  
RINGO SHEENA  
THALIA  
UTADA HIKARU  
THE VINES  
HITOMI YAIDA**



Alain Levy

Chairman and CEO, EMI Recorded Music

EMI Recorded Music has undergone a number of significant – and positive – changes in recent months. These changes will result in a business that generates growth, while being more efficient, more effective, more responsive to the market and, in particular, significantly more profitable than before. They represent the first phase in the re-creation of EMI Recorded Music, which David Munns and I began when we joined in October.

More details of the strategy can be found in the section between pages 6 and 7.

The new strategic direction for EMI Recorded Music, while providing optimism for the future, does not, however, disguise that the division had a very disappointing year. In a music market that decreased in value terms by 6.0%, EMI Recorded Music's sales fell by 11.1% to £2,029.4m, and operating profit (EBITA) dropped by 63.5% to £33.1m. Global market share decreased by 0.7 percentage points to 13.4%. This reflects the underperformance of key releases, together with significant management issues in the United States.

The number of artist albums selling more than one million copies decreased marginally from 28 to 27, although no album matched last year's success of the 22 million selling Beatles *1* album. There were also five NOW compilation albums that each sold well in excess of one million copies. The top selling album was Robbie Williams' *Swing When You're Winning*, which sold 5.4m copies in the year ended 31 March 2002, and has continued to perform well since the year end. Other big sellers included *All For You* from Janet Jackson (5.1m units), *Echoes*, the compilation of Pink Floyd's greatest hits (5.1m units), the self-titled debut album from Gorillaz (3.9m units) and Kylie Minogue's *Fever* (3.6m units).

Although our market share only decreased slightly, from 10.8% to 10.4%, in a market that fell 3.3% EMI Recorded Music's performance in North America was particularly disappointing. We have made a number of changes to our North American operations, most significantly moving Virgin to New York to give us an East Coast label presence and appointing David Munns as Chairman and CEO of EMI Recorded Music North America. David is now based in New York, and retains his global responsibilities as Vice Chairman of EMI Recorded Music.

In Europe, the market fell 2.3% compared with a broadly flat market last year. This masks significant differences within the region, with large falls in Germany, Portugal and Eastern Europe outweighing increases in the UK, France and Sweden. EMI's market share decreased 0.3 percentage points, as increases in Germany offset slight decreases in the UK, France and Spain. Strong margin control, particularly in the UK, resulted in a small increase in profitability in this region.

2002			
2001/02	2000/01	1999/00	1998/99
2,029.4	2,264.0	2,511.0	2,788.0
1,980.0	2,210.0	2,460.0	2,730.0
1,930.0	2,160.0	2,410.0	2,680.0
1,880.0	2,110.0	2,360.0	2,630.0
1,830.0	2,060.0	2,310.0	2,580.0
1,780.0	2,010.0	2,260.0	2,530.0
1,730.0	1,960.0	2,210.0	2,480.0
1,680.0	1,910.0	2,160.0	2,430.0
1,630.0	1,860.0	2,110.0	2,380.0
1,580.0	1,810.0	2,060.0	2,330.0
1,530.0	1,760.0	2,010.0	2,280.0
1,480.0	1,710.0	1,960.0	2,230.0
1,430.0	1,660.0	1,910.0	2,180.0
1,380.0	1,610.0	1,860.0	2,130.0
1,330.0	1,560.0	1,810.0	2,080.0
1,280.0	1,510.0	1,760.0	2,030.0
1,230.0	1,460.0	1,710.0	1,980.0
1,180.0	1,410.0	1,660.0	1,930.0
1,130.0	1,360.0	1,610.0	1,880.0
1,080.0	1,310.0	1,560.0	1,830.0
1,030.0	1,260.0	1,510.0	1,780.0
980.0	1,210.0	1,460.0	1,730.0
930.0	1,160.0	1,410.0	1,680.0
880.0	1,110.0	1,360.0	1,630.0
830.0	1,060.0	1,310.0	1,580.0
780.0	1,010.0	1,260.0	1,530.0
730.0	960.0	1,210.0	1,480.0
680.0	910.0	1,160.0	1,430.0
630.0	860.0	1,110.0	1,380.0
580.0	810.0	1,060.0	1,330.0
530.0	760.0	1,010.0	1,280.0
480.0	710.0	960.0	1,230.0
430.0	660.0	910.0	1,180.0
380.0	610.0	860.0	1,130.0
330.0	560.0	810.0	1,080.0
280.0	510.0	760.0	1,030.0
230.0	460.0	710.0	980.0
180.0	410.0	660.0	930.0
130.0	360.0	610.0	880.0
80.0	310.0	560.0	830.0
30.0	260.0	510.0	780.0
0.0	210.0	460.0	730.0
0.0	160.0	410.0	680.0
0.0	110.0	360.0	630.0
0.0	60.0	310.0	580.0
0.0	10.0	260.0	530.0
0.0	0.0	210.0	480.0
0.0	0.0	160.0	430.0
0.0	0.0	110.0	380.0
0.0	0.0	60.0	330.0
0.0	0.0	10.0	280.0
0.0	0.0	0.0	230.0
0.0	0.0	0.0	180.0
0.0	0.0	0.0	130.0
0.0	0.0	0.0	80.0
0.0	0.0	0.0	30.0
0.0	0.0	0.0	0.0

Recorded Music  
Turnover (£m)

2002			
2001/02	2000/01	1999/00	1998/99
33.1	100.0	100.0	100.0
32.0	95.0	95.0	95.0
31.0	90.0	90.0	90.0
30.0	85.0	85.0	85.0
29.0	80.0	80.0	80.0
28.0	75.0	75.0	75.0
27.0	70.0	70.0	70.0
26.0	65.0	65.0	65.0
25.0	60.0	60.0	60.0
24.0	55.0	55.0	55.0
23.0	50.0	50.0	50.0
22.0	45.0	45.0	45.0
21.0	40.0	40.0	40.0
20.0	35.0	35.0	35.0
19.0	30.0	30.0	30.0
18.0	25.0	25.0	25.0
17.0	20.0	20.0	20.0
16.0	15.0	15.0	15.0
15.0	10.0	10.0	10.0
14.0	5.0	5.0	5.0
13.0	0.0	0.0	0.0
12.0	0.0	0.0	0.0
11.0	0.0	0.0	0.0
10.0	0.0	0.0	0.0
9.0	0.0	0.0	0.0
8.0	0.0	0.0	0.0
7.0	0.0	0.0	0.0
6.0	0.0	0.0	0.0
5.0	0.0	0.0	0.0
4.0	0.0	0.0	0.0
3.0	0.0	0.0	0.0
2.0	0.0	0.0	0.0
1.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0

Recorded Music  
Operating profit (£m)

The Japanese market had a poor year, ending down 13.4%. Within this, EMI's market share slipped to 10.3% from 11.2% as a number of significant releases, including one from Ringo Sheena, were postponed into the current financial year. The rest of the Asian market outside Japan decreased by 5.5%, compared with a market that was broadly flat last year. EMI's market share fell from 8.9% in the year ended 31 March 2001 to 7.5% in the year ended 31 March 2002.

The well-documented and particularly deep economic difficulties in Latin America, especially Argentina, have resulted in a 24.2% decrease in the music market. EMI reacted swiftly to this fall by postponing or cancelling a number of releases and cutting costs sharply, which resulted in our market share decreasing from 16.1% to 13.8%. This swift action resulted in an overall profit in Latin America for the second half that was largely unchanged from the previous year.

Other markets around the world grew 3.1%, compared with a fall last year of 1.5%, while our market share fell marginally from 18.6% to 18.0%.

EMI Classics has maintained its market share in a challenging year. Its *Great Recordings of the Century* series has now sold over 2.5m sets and, in the UK, the newly launched crossover classics band, The Planets, spent 10 weeks at the top of the classical charts.

EMI Recorded Music continues to pursue a new media strategy of making its music available through as many channels as possible and to as many people as possible. In order to do this, EMI has continued to license its music widely, and we have now entered into arrangements with over 70 different companies. Recent agreements include internet-enabled digital jukeboxes through Ecast and online music streaming subscriptions through Listen.com's Rhapsody service.

Nonetheless, EMI is also very aware of the challenges presented by piracy, both physical and digital. We are continuing to co-operate with governments around the world to enact and enforce anti-piracy legislation. However, we have taken an extremely proactive position and we are directly protecting our, and our artists', content. From July, we will use copy-protection on local repertoire in Asia and Latin America, regions where piracy is particularly rife. We are testing technology, for use in Western European and North American markets, that prevents unauthorised copying, while permitting limited legitimate personal copies. We expect to employ this technology before the end of 2002. Piracy in all its forms requires vigilance and strong action; we are determined to protect our own profits, to ensure that artists, writers and producers earn their fair share, and to support creativity and the emergence of new talent.

The recorded music market was difficult, and our performance within it was not good. However, the industry and EMI are taking vigorous steps to combat piracy and are looking into ways to have technology become a source of, rather than a hindrance to, growth. The first phase of the far-reaching restructuring has repositioned EMI within a very short period of time into an organisation poised for future growth. We strongly believe that creativity and artist development are key to a successful company and a successful industry. We have an exciting release schedule and, with the new structures in place, will be better positioned to achieve the full potential of this business.



Alain Levy  
Chairman and CEO  
of the company



David Mauns  
Chairman and CEO  
of the company

## The New EMI Recorded Music

'We believe we can considerably improve EMI's near-term performance from the changes already implemented, and we are optimistic that the broader challenges will present significant opportunities.'

Alain Levy

Chairman and CEO, EMI Recorded Music

We are shaping EMI Recorded Music for the future, positioning it to deliver both top line growth and higher margins. Cost reductions are essential, but the longer-term priority is to improve the creative side of our business, to become more effective as well as more efficient.

In order to achieve this, we have adopted a two-phase approach. The first phase, which involves restructuring EMI Recorded Music to compete effectively in the current music market, is moving very quickly, and will be almost fully executed by the end of September 2002.



Matthew Allison  
President and CEO,  
EMI Recorded Music Asia Pacific

### Merging non-creative resources

Our first step was to merge the non-creative resources of our EMI and Virgin labels. Within each country there is now one overall head, two streamlined labels and merged services – accounting, IT, human resources and sales. This has significantly reduced the cost base, but has also ensured that information, best practice and ideas are shared more effectively.

### Marketing

EMI had not had an integrated approach to exploiting the catalogue, nor did it have an integrated international marketing function. In his role heading our global marketing efforts, David Munn has merged the Virgin and the EMI catalogues, not only to reduce costs, but also to generate higher sales from better co-ordination of catalogue campaigns.

We renamed the EMI label as Capitol, creating two worldwide brands, Capitol and Virgin. This reinforces our overall global approach to marketing, and will reinforce links between our US business and the rest of the world. Our Classics division will retain the EMI name, which is recognised and well respected by classical music lovers.

We also created a common worldwide marketing unit to exploit the international potential of albums, and recently appointed Tony Harlow and Matthieu Lauriot Prevost to head the Capitol and Virgin marketing teams. Richard Tytelton will lead the global marketing of our classics and jazz repertoire. This new structure has the potential to generate a 10% increase in sales from albums we market internationally – numbers we are confident of achieving because we have done so before.

A good example is Kylie Minogue. Her album, *Fever*, was a big hit before Christmas in the UK and Europe. David convinced the US company of its merits, and they released it in February this year, when it entered the charts at number three, and has since sold more than 800,000 copies there. From this strong US base, it is now selling well in Latin America and the Far East, and to date Kylie has sold over four million albums.

### Creativity

We have installed outstanding creative label heads in all territories to re-energise the labels. These are people who live and breathe music, and who are not only in touch with today's trends but capable of shaping them. They will be supported by strong business processes, including in many cases the appointment of a chief operating officer, to ensure that appropriate financial disciplines are observed.

We are also moving our Virgin label in America from Los Angeles to New York. This will give us an East Coast presence for the first time in many years, and balances the West Coast repertoire of Capitol.



Rafael Gil  
President and CEO,  
EMI Recorded Music Latin

In recent years, EMI's normal process of trimming and renewing its artist roster did not receive sufficient priority, and radical action was necessary. We have since reduced the roster by around one quarter. This is an essential action to refocus the people at the labels on the right artists – the ones who are or can be successful.



**Emmanuel de Buretel**  
Chairman and CEO,  
EMI Recorded Music Continental Europe

#### Manufacturing

Finally, we are improving the efficiency of our manufacturing operations. The recent closure of our Swindon plant was completed ahead of schedule and the consolidation of our European manufacturing operations into Uden, in Holland, will significantly improve our capacity utilisation in Europe.

We have appointed Alan McElroy to lead our manufacturing and sourcing, overseeing all of our CD and DVD manufacturing on a worldwide basis. He will develop a global strategy for the manufacture of all physical formats of EMI's music, increasing utilisation and efficiency, and instilling best practices.



**John Rose**  
Executive Vice President,  
EMI Group

#### The longer term

The second phase of our work is more long term. Our aim is to change the way in which we operate, to bring the company into a modern age. This involves redesigning IT systems, exploiting the full capabilities of the internet, pursuing new formats and channels, and, in the longer term, moving from being purely a record company to a more broadly based music business. We have made a number of senior level appointments to drive this process.

In December 2001, John Rose was appointed Executive Vice President, with specific responsibility for driving business development and strategy. More recently, James Anderson joined the senior management team to head the Systems function and we will appoint a new head of Human Resources very soon.

#### Summary

The music industry faces considerable challenges. There are serious piracy problems in Asia, Latin America and Southern Europe. We have collectively failed to get hold of digital distribution and so bypassed revenue opportunities, allowed a whole generation to believe that music should be free, and let the hardware manufacturers absolve themselves of responsibility for protecting intellectual property. And we have not generated real superstars.

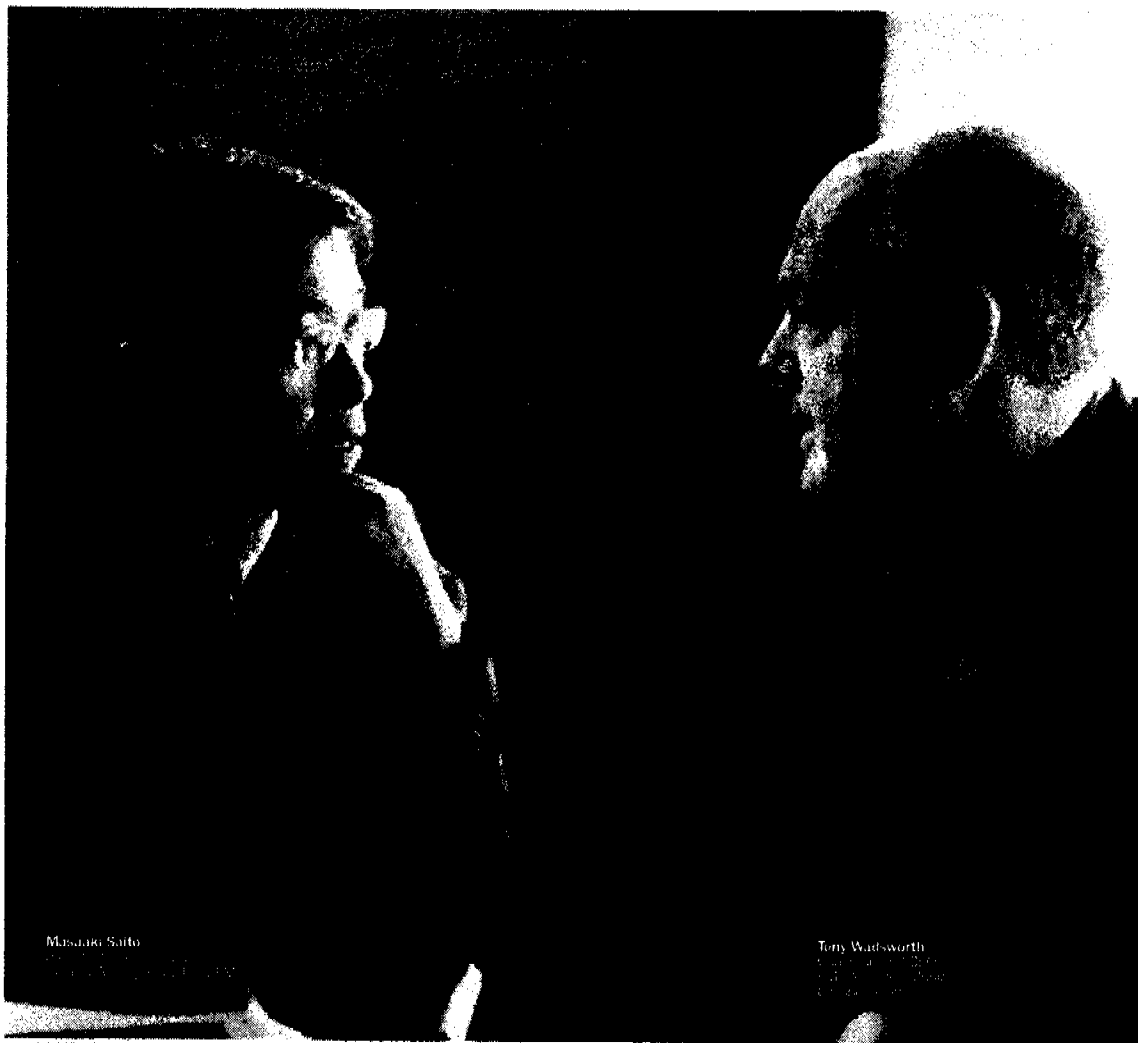
Piracy has to be tackled on a much more proactive basis; we will never completely eradicate it, but that does not mean we cannot do more to contain it. We also see digital distribution as an opportunity. We have to be flexible and adventurous, but it will change the look of our company and our industry. And, equally importantly, we need to address the issue of creativity within our company and the industry by balancing commercial performance with the investment – of money and time – needed to develop artists on a worldwide basis.

We expect our immediate changes to make a substantial impact, with almost £100m annualised cost savings, of which the vast majority will be realised in the current fiscal year. They will also spur top line growth; we think they will add between 0.5 and 1.5 percentage points to our market share. More importantly, we expect them to take operating margins up back over 10% and, in the longer term, to between 11% and 13%.

The industry issues are important, but we believe we can considerably improve EMI's near-term performance from the changes already implemented, and we are optimistic that the broader challenges will be not only surmountable but present significant opportunities.



**Stuart Ellis**  
CFO, EMI Recorded Music



Misaki Saito

Executive Director  
of the Center for the Study of  
Globalization

Tony Wadsworth

Executive Director  
of the Center for the Study of  
Globalization



Eric Nyeh

Executive Director  
of the Center for the Study of  
Globalization

Alan Levy

Executive Director  
of the Center for the Study of  
Globalization



Global market change  
by region - value (%)



Source: IFPI

2002

Source: IFPI estimates on the basis of analysis

EMI market share  
by region (%)



Source: IFPI

2002

**AT EMI MUSIC PUBLISHING  
WE HAVE BEEN INVESTING  
IN PEOPLE AND SYSTEMS,  
TO ENSURE THAT WE MAXIMISE  
THE OPPORTUNITIES OF AN  
EVOLVING MARKET. WE HAVE  
THE WORLD'S LEADING SONG  
CATALOGUE AND ROSTER OF  
SONGWRITERS.**

**WE ARE SEEKING NEW USES  
FOR OUR MUSIC TO ADD VALUE  
FOR OUR WRITERS AND FOR  
OUR SHAREHOLDERS.**



Sting

Alicia Keys



Celine Dion  
60 "I'm the only one who  
can make you want to  
take off your head"



Train



Jay-Z



Enrique Iglesias



P!nk

# GARIBAY



González



Estopa



Criya



Guy Chambers



Jandroque

**BLUR  
PHIL COLLINS  
COUNTING CROWS  
DOVES  
MS DYNAMITE  
FOO FIGHTERS  
GOO GOO DOLLS  
HOOTIE AND THE BLOWFISH  
MATCHBOX TWENTY  
BETH ORTON  
PRIMAL SCREAM  
PRODIGY  
SUPERGRASS  
TEXAS  
TRAIN  
WALLFLOWERS  
WILL YOUNG**





Martin Baudier  
Chairman and CEO, EMI Music Publishing

EMI Music Publishing once again produced excellent results, with a particularly strong second half. For the year as a whole, turnover grew 6.6% and net publisher's share 4.8%. Operating profit (EBITA) increased 2.7% to £107.8m.

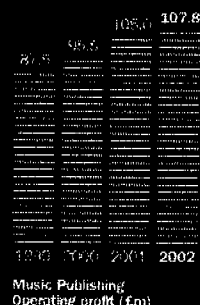
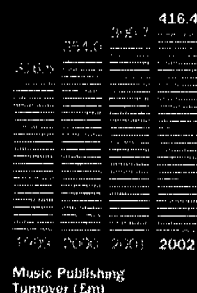
The business achieved good growth across all income types. In spite of the difficult conditions in the recorded music market, mechanical royalties increased 3.6%, reflecting market share gains as the strategy to target hit songwriters continued to bear fruit. Mechanical royalties now comprise 55% of Music Publishing's turnover.

Performance revenue grew strongly, at 13.8%, principally because of strong US revenue and UK chart share. Performance royalties form 24% of turnover.

Synchronisation income was 13% of the total Music Publishing turnover and also made significant gains in the year, up 10.2% despite the difficulties in the global advertising market.

In North America, turnover increased 6.4%, led by strong gains in both performance and synchronisation. Operating profit was slightly below last year's levels, which included a settlement from MP3.com for copyright infringements. One of the highlights of the year was the outstanding success of the debut album from Alicia Keys, an artist who has been nurtured by EMI Music Publishing for many years. Her album *Songs in A Minor* has sold over five million copies in the US alone, and she won five awards at this year's Grammys. In light of our success, EMI Music Publishing was named Music Publisher of the Year by ASCAP, BMI and *Billboard* magazine.

In the UK, turnover improved 10.5% as a result of strong gains in most income types, particularly performance revenues which reflected our impressive 28.4% chart share, nearly equal to the combined totals of our two nearest competitors. These revenues generated a 25.9% increase in operating profit.





## Music Publishing *continued*

In the rest of Europe, turnover grew 6.3%, driven principally by an excellent performance in Germany, where we achieved an impressive 33.6% share of the German Music Publisher Charts for 2001.

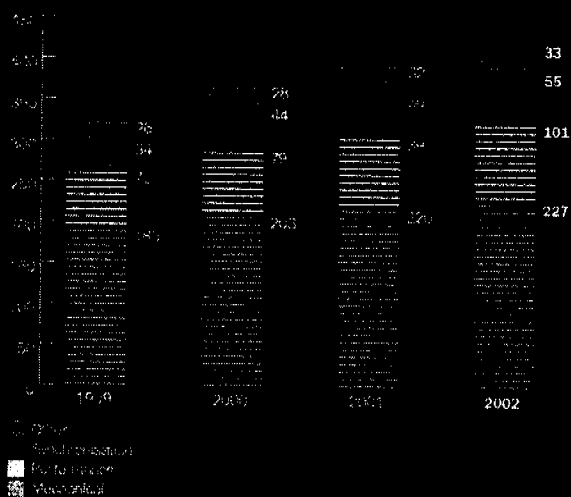
Other regions also performed well. Japan had strong success with Utada Hikaru and Enya. South East Asia, where we have seen a significant increase in revenue from ring tone deals, also reported good results. Despite very difficult economic conditions, which had a significant impact on the recorded music market, EMI Music Publishing in Latin America managed to grow operating profit.

Looking forward, we expect to retain our market-leading position in music publishing through a combination of successful new signings and the continuation of our imaginative exploitation of one of the world's most important music publishing catalogues. We aim to enhance profitability further through the diligent control of overheads and by improving margins where possible.

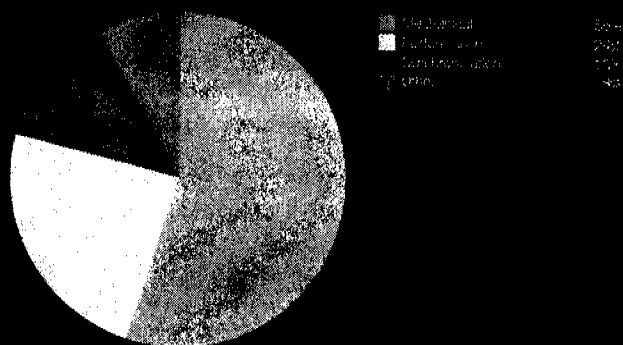
New media continue to provide us with exciting opportunities to enhance our existing business and to create new revenue streams. Our expanded website permits users to search our extensive catalogue in a variety of ways, including not only song title or writer, but also music genre, chart position, age, mood and key words. It has already proved very successful in driving additional revenue from a variety of sources.

Our strong market share, our ability to maximise revenue from traditional sources, as well as our energy and imagination applied to creating new revenue sources, mean that EMI Music Publishing is well placed for the current financial year.

Growth across all  
revenue streams (£m)



Music Publishing  
sources of revenue 2002





Roger Faxon

Group Chief Financial Officer, EMI Group

## Trading and profit before tax

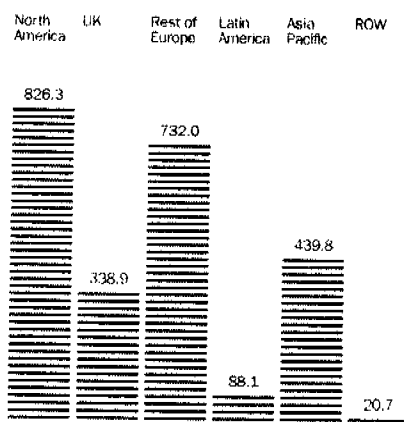
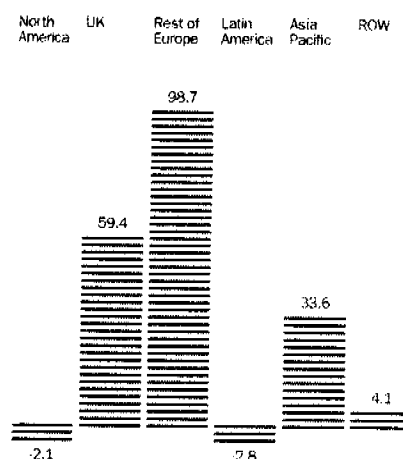
	Turnover			Operating profit*		
	2002 £m	2001 £m	Change %	2002 £m	2001 £m	Change %
Recorded Music	2,029.4	2,282.0	(11.1)	83.1	227.5	(63.5)
Music Publishing	416.4	390.7	6.6	107.8	105.0	2.7
<b>Group total</b>	<b>2,445.8</b>	<b>2,672.7</b>	<b>(8.5)</b>	<b>190.9</b>	<b>332.5</b>	<b>(42.6)</b>
Return on sales	7.8%	12.4%				

\* Before operating exceptional items and amortisation

**Group turnover** fell by £226.9m (8.5%), including £18.5m from exchange on translation. All regions except the UK had lower turnover in the year ended 31 March 2002 compared with the previous year. The most marked falls were in Japan (£87.3m), North America (£60.2m) and Latin America (£44.0m). Turnover in the UK grew marginally.

The decrease in turnover was entirely as a result of poor trading in Recorded Music. Music Publishing generated turnover growth of 6.6%, and showed increases in all categories of income.

**Group operating profit (EBITA)** decreased 42.6%, from £332.5m in 2001 to £190.9m in 2002, wholly as a result of a 63.5% drop in Recorded Music operating profits, from £227.5m in 2001 to £83.1m in 2002.

Group turnover  
by origin (£m)Group operating profit  
by origin (£m)

An explanation of trading performance is given in the Business Reviews on pages 4 to 11.

**Group turnover for the second half** fell by £149.8m (9.8%) to £1,378.8m, of which decrease £21.0m was attributable to exchange on translation. Recorded Music sales were down £167.8m (12.6%), with decreases in every region with the exception of the UK. Music Publishing, in contrast, grew sales in the second half by £18.0m (9.1%), with increases in every region.

**Group operating profit for the second half** was £73.8m (33.3%) lower than last year, at £147.8m. This included a loss of £3.8m from exchange on translation. Recorded Music profits were down £76.4m (45.6%) to £91.2m, reflecting substantially lower profits in North America, Japan and South East Asia which more than offset strong performances from the UK and Continental Europe. Music Publishing increased its second-half operating profit by £2.6m (4.8%) to £56.6m, driven principally by a strong performance in the UK.

EMI's **share of operating loss in associates** fell from a loss of £3.8m in 2001 to a loss of £1.1m in 2002.

**Group finance charges** of £60.4m were £13.9m lower than the previous year, principally because of the effect of lower interest rates, which more than offset the impact of higher average debt levels.

At the year end, EMI had a 42.65% investment in HMV Group plc (formerly HMV Media Group plc) that yielded adjusted pre-tax profits of £23.9m, an increase of £18.8m compared with the year ended 31 March 2001. Within this result, the **joint venture operating profit** improved by £10.2m to £44.6m, reflecting improved trading throughout HMV Group, and the **joint venture finance charges** dropped by £8.6m to £20.7m because of lower average debt levels.

**Adjusted profit before tax**, amortisation and exceptional items (adjusted PBT), fell £106.2m to £153.3m in the year ended 31 March 2002 (2001: £259.5m).

Other items affecting earnings

The **group tax rate**, before amortisation and exceptional items, and including HMV Group, increased to 30.0% from 27.3% last year. The increase occurred despite a substantial repayment of Advance Corporation Tax as a result of paying Foreign Income Dividends, and was the result of the geographic mix of profits in higher tax jurisdictions and the unavailability of tax relief on certain losses arising in the year.

**Amortisation** of copyrights acquired and goodwill on acquisitions decreased by £2.5m to £51.3m, mainly because of goodwill write-offs to the exceptional charge during the year.

The £242.4m **operating exceptional charge** relates to restructuring and reorganisation costs, mainly within EMI Recorded Music. These costs include a significant reduction in both headcount and the number of artists under contract. In addition, there are costs resulting from the substantial economic decline in the Latin American region. Also included are costs related to the closure of a number of loss-making satellite labels and the write-down of certain assets, in particular goodwill.

HMV Group also incurred exceptional operating and non-operating costs, of which EMI's share was £12.4m.

The **minority interest charge** has fallen from £12.7m to £8.5m, reflecting the significant decrease in the profitability of our Japanese Recorded Music business in the year under review.

The overall group result was a **net loss** of £199.5m, compared with a profit of £79.2m last year.

**Adjusted diluted earnings per share** were 11.8p (2001: 21.9p). The Board is recommending a final **dividend** of 3.75p per share to result in a total dividend for the year of 8.0p, halved from its level of 16.0p last year.

#### Cash flow and net borrowings

The net cash inflow from operating activities was £211.9m. After net new investment in fixed assets, copyrights and other items of £39.7m, acquisitions of £24.0m, tax paid of £22.3m, interest costs of £58.7m, equity dividends of £125.3m and dividends to minority interests of £3.3m, net debt increased by £61.4m. Net debt increased by a further £3.7m as a result of exchange rate and other movements, reaching £1,057.9m at the year end (2001: £992.8m).

#### Treasury management

##### Treasury policies

Treasury activities are carried out within a framework of policies and guidelines approved by the Board, with control and monitoring delegated to the Treasury Management Committee which is chaired by the Group Chief Financial Officer. These policies aim to ensure that adequate, cost-effective funding is available to the group at all times and that exposure to financial risks is minimised. The existing Treasury policies were reviewed by the Board in April 2002 and have remained substantially unchanged throughout the financial year.

Financial instruments held by the group comprise derivatives, borrowings, cash and liquid resources and other financial assets and liabilities. Their purpose is to raise finance for the group's operations. Treasury policies prohibit their use for speculative purposes.

##### Funding and interest rate risk

For most of the year, funding was managed through the use of short-term and medium-term committed and uncommitted bank facilities. At 31 March 2002, these comprised a US\$500m 10-year bond issued in 1999 and £1.3bn of predominantly short-term bank facilities.

The group has taken a number of steps to refinance these bank facilities. In April 2002, a new £1.3bn multi-currency revolving credit facility, with maturities up to three years, was drawn to repay and cancel most of the existing short-term bank facilities. In May 2002, it issued a £250m six-year bond, which refinanced part of the revolving credit facility. Also in May, the group received £122.9m net proceeds from the HMV Group flotation, which were used to repay existing debt and to cancel part of the revolving credit facility. A further £19.4m is expected in July from the repayment of senior preference shares. The group anticipates that it will similarly use subsequent proceeds from the sale of non-core assets to repay and cancel parts of this facility.

The group borrows in various currencies at fixed and floating rates, and uses swaps, caps and collars to manage exposure to interest rate fluctuations. Treasury policy is to keep between 25% and 75% of borrowings at fixed or capped rates. At the year end, 56% of borrowings were fixed or capped. Financial instruments held at 31 March 2002 to manage interest rate risk are disclosed in Note 19(viii) on page 53.

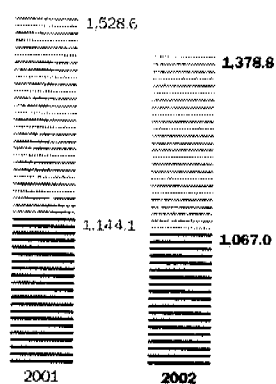
#### Foreign currency risk

The group faces currency exposure from exchange rate fluctuation against sterling. Balance sheet exposures are hedged to the extent that overseas liabilities, including borrowings, provide a natural hedge. Group policy is not to undertake additional balance sheet hedging measures, nor to hedge profit and loss account translation exposure. Transaction exposures are hedged, where there are materially large items that have a high probability of occurring, with the use of forward exchange rate contracts.

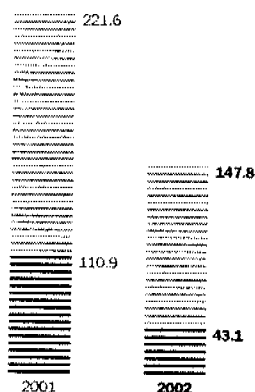
No forward rate contracts were held at 31 March 2002, as disclosed in Note 19(viii) on page 53.

#### First and second half analysis

##### Turnover (£m)



##### Operating profit (£m)



■ First half  
■ Second half

Our Standards of Business Conduct set out the values by which we manage our businesses. Foremost among these is integrity: honesty and openness in all business and personal dealings both inside and outside the company. This underpins a commitment to the fair treatment of all our stakeholders – artists, employees, shareholders, customers, suppliers, governments and society at large – and is the cornerstone of our approach to corporate social responsibility (CSR).

We recognise the growing interest in how companies manage social, ethical and environmental issues. This is our tenth year of environmental reporting (see insert opposite) and last year we reintroduced reporting on our community involvement. In line with commitments made then, we have begun to report some initial data on employment issues; we intend to build on that in the coming year.

We are pleased to be included in a number of CSR indices – the recently launched FTSE4Good and the Dow Jones Sustainability Group Index – and to have maintained a high media sector ranking in Business in the Environment's 2001 'Index of Corporate Environmental Engagement'.

Based on its performance during the year, our UK record company was awarded a Queen's Award for Enterprise; while the award recognises achievements in international trade, one of the necessary thresholds is to demonstrate responsible conduct in managing impacts on society and the environment.

We engage in discussions on CSR issues with stakeholders and, together with other UK-based media organisations, have established a CSR Forum to identify issues of relevance and develop consensus on best practice.

#### Employment

Responsibility for employment matters continues to rest with each business operation under the umbrella of EMI Group's policy and procedure guidelines. These cover a range of issues and include:

- equal opportunity in a work environment that is free of discrimination on the grounds of gender, nationality, ethnic or racial origin, non-job-related disability or marital status. Approximately a quarter of our senior management group is female;
- promotion of the highest levels of safe and healthy work practices. In the UK – where we have studios, manufacturing and distribution as well as our various office operations – we had 10 reportable injuries/illnesses (8 per 1,000 employees) and an average of 5.3 days' absence through illness per employee. We incurred no health and safety enforcement notices or convictions;
- open and two-way communication at all levels. This policy was particularly put to the test this year due to our restructuring. We believe that a carefully managed programme has ensured that redundancies have been handled fairly and that employees affected are being treated well. Consultation, voluntary redundancy, redeployment where possible, good severance terms and retraining and outplacement were all key to the process.

# 10

**IT'S TEN YEARS SINCE WE  
STARTED REPORTING ON  
OUR ENVIRONMENTAL  
PERFORMANCE. THANKS  
TO INCREASING LEVELS  
OF AWARENESS AND HARD  
WORK BY OUR OPERATING  
COMPANIES, WE HAVE MADE  
GAINS WE CAN BE PROUD  
OF. WE ARE PLEASED WITH  
THE RECOGNITION THAT WE  
HAVE RECEIVED FOR OUR  
WORK IN THIS AREA BUT  
THERE WILL ALWAYS BE  
MORE THAT WE CAN DO.**



Our tenth annual environmental report will be published this summer, covering the full range of activities undertaken by our businesses during the year and providing detailed performance data across a range of indicators. We will also recap what we've achieved over the decade, including our early lead in reporting, our structured and certified management systems in manufacturing, our specific efforts to reduce the environmental impact of our products and services, and our initiatives to raise awareness, both inside and outside the company, of the environmental agenda.

An exciting development this year has been our participation in the launch of 'Digital Europe', a pan-European study into the social and environmental effects of e-business supported by the European Commission and managed by Forum for the Future. A core element of the project is a set of case studies; ours are examining how direct digital distribution of music might change the environmental 'footprint' of our products, and what the social impacts of this emerging business model might be.

We have introduced our key performance indicators at different stages in our ten-year programme. This year we were able to improve our performance in each of the areas to continue our overall downward trend:

- CO<sub>2</sub> emissions from buildings and plant, and our consequent contribution to global warming, fell by 8% related to turnover, for a 29% reduction since 1993;
- hazardous waste per unit of output fell 42% (primarily due to the installation of a new waste water treatment system in the Netherlands), for a 71% reduction since 1994;
- solvent consumption per unit of output was 6% down (largely due to process changes in the US), for a 65% reduction since 1995;
- polycarbonate scrap per unit of output (CD) was 7% down, with most plants showing improved performance, for a 37% reduction since 1995.

**Global warming potential**  
CO<sub>2</sub> emitted due to energy use in buildings/factories  
(kilotonnes/year)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Global warming potential	16.0	42.2	105.0	116.9	114.2	121.7	128.0	114.0	101.6	82.9
Change vs. 1993		160%	562%	631%	628%	673%	675%	613%	535%	487%
Change vs. 1994			150%	167%	163%	173%	167%	142%	123%	95%
Change vs. 1995					6%	12%	13%	6%	23%	23%
Change vs. 1996						5%	11%	4%	13%	28%
Change vs. 1997							1%	10%	18%	33%
Change vs. 1998								1%	16%	31%
Change vs. 1999									1%	19%
Change vs. 2000										1%
Change vs. 2001										
Change vs. 2002										

**Global warming potential**  
CO<sub>2</sub> emitted due to energy use in buildings/factories (per unit of output)  
(tonnes/year)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Global warming potential	58.4	40.7	44.5	43.1	47.1	50.5	45.4	47.8	36.9	35.8
Change vs. 1993		-30%	-24%	-26%	-19%	-14%	-22%	-18%	-38%	-39%
Change vs. 1994			9%	3%	12%	16%	12%	19%	-10%	-13%
Change vs. 1995					10%	13%	10%	7%	-17%	-20%
Change vs. 1996					12%	15%	12%	9%	-14%	-17%
Change vs. 1997						3%	3%	4%	-11%	-14%
Change vs. 1998									-11%	-14%
Change vs. 1999										1%
Change vs. 2000										
Change vs. 2001										
Change vs. 2002										

**Hazardous waste**  
(tonnes/unit of output)

	1994	1995	1996	1997	1998	1999	2000	2001	2002
Hazardous waste	0.75	0.52	0.48	0.41	0.39	0.31	0.37	0.38	0.2
Change vs. 1994		-31%	-36%	-45%	-48%	-59%	-57%	-56%	-73%
Change vs. 1995			-8%	-15%	-19%	-27%	-27%	-26%	-40%
Change vs. 1996				-17%	-21%	-30%	-29%	-28%	-41%
Change vs. 1997					-10%	-20%	-19%	-18%	-30%
Change vs. 1998							22%	21%	36%
Change vs. 1999									38%
Change vs. 2000									
Change vs. 2001									
Change vs. 2002									

**Solvent use**  
(litres/kg of product)

	1995	1996	1997	1998	1999	2000	2001	2002
Solvent use	2.71	1.15	1.01	1.13	1.09	0.9	0.9	0.9
Change vs. 1995		-58%	-63%	-59%	-67%	-67%	-67%	-67%
Change vs. 1996			-12%	10%	6%	-22%	-22%	-22%
Change vs. 1997				12%	8%	-11%	-11%	-11%
Change vs. 1998					4%	-17%	-17%	-17%
Change vs. 1999						11%	11%	11%
Change vs. 2000								
Change vs. 2001								
Change vs. 2002								

**Polycarbonate scrap**  
(tonnes/tonnes of output)

	1995	1996	1997	1998	1999	2000	2001	2002
Polycarbonate scrap	2.2	1.61	2.2	2.24	2.2	1.6	1.6	1.6
Change vs. 1995		-27%	0%	10%	0%	-27%	-27%	-27%
Change vs. 1996			37%	50%	25%	0%	0%	0%
Change vs. 1997				8%	0%	-27%	-27%	-27%
Change vs. 1998					-4%	-27%	-27%	-27%
Change vs. 1999						-27%	-27%	-27%
Change vs. 2000								
Change vs. 2001								
Change vs. 2002								

## Community

The main areas of our community engagement and charitable support are youth and education, arts and culture, health and human services, and the local community. Two of the larger programmes that we support – the Music Sound Foundation (MSF) and Masterprize – directly address the first two of these.

The MSF is an independent UK-based charity whose aim is to help make music education in all its forms – rock, pop, jazz, classical – available at all stages of learning. The Trustees' premise is that music is an important part of a rounded education – providing children with self-confidence and self-esteem as well as great pleasure. The MSF funds specialist performing arts colleges, schools' music education, instruments for students and training for music teachers, and a selection of college bursaries.

Since first establishing the MSF in 1997, we have continued to support it through annual donations and funding its administration – enabling it to channel close to 100% of its gross income to music education. To date, the MSF has donated £1.4m.

EMI is one of several founding sponsors of Masterprize, a biannual international competition to promote contemporary composition. Now in its third cycle, the competition aims to engage audiences worldwide in the development of new music and has a complementary education programme which involves youth orchestras in the UK in related workshops and performances of the finalists' compositions.

At a local level, our individual businesses continue to decide how best to focus their community support. Current projects include:

- the launch in the US by EMI Music Distribution of an 'Adopt-a-School' partnership with Northridge Middle School in the Los Angeles school district. An after-school programme enables students to learn all aspects of the music business, and links practical skills to character development – participants form a record label and produce a CD with tracks that exemplify 'six pillars' of good character;
- the provision by EMI Recorded Music in the UK of financial, in-kind, and mentoring support to the west London activities of 'Youth at Risk', an international charity that designs and delivers innovative community-based programmes to address gang violence and gang-related issues.

Following the tragic events in the US on 11 September 2001, we pledged US\$1m to help relieve the suffering that resulted from the attacks. Our focus has been on helping the victims of the attacks and their families, both civilians and rescue workers, though some of the relief funds we selected are more broadly based. We have also co-operated with the requests of a number of artists to make donations linked to sales of specific releases, including Claudio Abbado's recording of Verdi's *Requiem* and Sir Paul McCartney's single *Freedom*, which he performed at the New York benefit concert.

## Executive Directors



Eric Nichols was appointed to the Board in 1983 as a Senior Executive Director, becoming executive Chairman in July 1989. Until 30 April 1990, he was Group Chief Executive of United Resource Holdings plc of which he joined from Rover International in 1980. He was appointed to the URB Board in 1989 as Chief Executive, European Operations and became Chief Executive of URB in 1991.



Mr. Frey is a Director of David Finley & Co., Ltd. and Helmsley Investments Ltd. His address is:

Mr. Fry is a Director of Day & Erwin & Co. Ltd. and Hebebrand Investments Ltd. He also sits on the advisory board of Schroder's Ventures in the U.S. and on the Finance Advisory Board of Wharton Business School.

## Non-executive Directors



**Sir Dominic Parnis**  
Chairman of the Non-executive  
Directors

Sir Dominic joined the Board in 1998, becoming Deputy Chairman and senior independent Non-executive Director in July 1999. He is Chairman of the Remuneration and Nominations Committees.

Sir Dominic is a Director of Cadbury Schweppes plc and B&M 2000 after serving as an independent senior adviser to the company in 1994 after graduation from Stair and University. He joined the Board of Cadbury Schweppes in 1974 as Managing Director of its Foods Division and subsequently held a number of Board positions.

Sir Dominic is Chairman of The Fragrances Group and The Wellcome Trust. He is also a Director of the Teaching Awards Trust, Disease Technologies plc, Missipie and The Dinky Club of London Ltd.



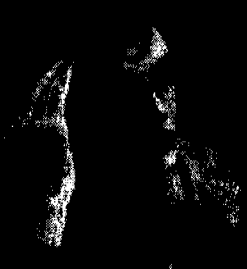
Harald Eide was elected to the Board in 1992. He retired as Executive Vice President and a member of Product & Canada's Main Board of Executive Committee in 1996.

Dr Eide is a Director of Joseph, Ballis, Anderson Tobacco plc and Europac Midway Group Ltd. He is also a member of the Boards of Fardis AB of Sweden and Sora-Lund OY of Finland, a member company of the Swedish Wallenberg Group.



Hugh Jenkins joined the Board in 1995 and will be retiring as a Director at the conclusion of the 2002 Annual General Meeting. He was appointed Chairman of Development Securities PLC in 1999. Until 1999, Mr Jenkins was Chairman and Chief Executive of the International Petroleum Managers and a Director of Petrolina Corporation.

Mr Jenkins is a Director of Johnson Matthey plc, Guinness, Garscoran, Investec and Timp plc. He is a former UK and South African Board member and Trustee Ltd. He is also an Advisory Director of Loral in Europe and Ltd.



Kathleen O'Donnell joined the Board in 1994 and has chaired the Audit Committee since 1999.

Ms O'Donnell is a Director of Ennis plc, the Dublin based services company listed on the combination of BTR and Satchel in 1999. She joined BTR as Finance Director in 1991 from Ernst & Young, where she had been a partner. She is also a member of the Board of the Bank of Ireland.

## Board Committees

### Remuneration Committee

Membership: All Non-executive Directors.

The Group Chief Executive and Officer, the Vice President Internal Audit and representatives of the Company's external auditors attend meetings by invitation.

### Strategic Development Committee

Membership: All Non-executive Directors.

The Chairman and the Group's Director Human Resources, normally attend meetings by invitation.

### Corporate Governance Committee

Membership: All Non-executive Directors and the Chairman.

### Executive Committee

Membership: All Executive Directors.

Senior Company executives attend meetings.

### Finance Committee

Membership: The Chairman and the Group Chief Financial Officer.

The Senior Vice President Tax and Treasury may be invited to attend meetings.

### Internal Audit Committee

Membership: The Chairman and the Group Chief Financial Officer.

Other Directors, senior Company executives and external advisers may be invited to attend meetings.

## Directors' Report

for the year ended 31 March 2002

The Chairman's Statement, the Business Reviews and the Financial Review in this Annual Report together contain details of the principal operations of the Group and their results during the year as well as likely future developments.

### Dividends

An interim dividend of 4.25p per Ordinary Share was paid on 1 March 2002. The Board is recommending a final dividend of 3.75p per Ordinary Share, making a total of 8.0p (2001: 16.0p). The final dividend will be paid on Tuesday, 1 October 2002 to Ordinary Shareholders on the register as at the close of business on Friday, 6 September 2002, with the shares going ex-dividend on Wednesday, 4 September 2002.

### Substantial shareholders

As at 16 May 2002 the Company had been notified of the following interests of 3% or more in its Ordinary Shares:

	No. of shares	% of capital held
Merrill Lynch & Co., Inc. group of companies including Merrill Lynch Investment Managers Limited	84,432,965	10.71
Schroder Investment Management Limited	53,262,981	6.75
AXA S.A. and its subsidiaries	34,096,823	4.32
Prudential plc group of companies	29,519,271	3.74

### Share capital

Changes in the Company's share capital during the year are set out in Note 25 on page 57.

### Employment policies

Information on the Group's employment policies is given on page 16.

### Supplier payment policy

The Company negotiates payment terms with its suppliers on an individual basis, with the normal spread being payment at the end of the month following delivery plus 30 or 60 days. It is the Company's policy to settle the terms of payment when agreeing the terms of each transaction, to ensure that the suppliers are made aware of the terms, and to abide by them. The number of days' purchases outstanding at 31 March 2002 is calculated at 25 days (2001: 17 days).

### Charitable and political contributions

Charitable, sponsorship and fund-raising activities carried out during the year within the Group contributed some £1.7m (2001: £1.3m) to charitable organisations and communities around the world. These included UK charitable donations amounting to £0.1m (2001: £0.4m). No UK political contributions were made (2001: £nil).

### Research and development

Research and development is the responsibility of the Group's businesses. During the year, Group expenditure on research and development totalled £0.2m (2001: £0.1m).

### Directors

The present Directors of the Company are named on pages 18 and 19. All served as Directors throughout the year, other than Mr A M J I Levy and Mr R C Faxon, who were appointed on 15 October 2001 and 5 February 2002, respectively. Mr K M Berry and Mr A J Bates resigned as Directors on 14 October 2001 and 4 February 2002, respectively. Mr M Jackson resigned as a Director on 7 May 2002, following the completion of the acquisition of USA Networks' US entertainment division by Vivendi Universal.

Dr H Einsmann retires by rotation at the Annual General Meeting pursuant to Article 112(A) and, being eligible, offers himself for re-election.

Mr Levy and Mr Faxon retire at the Annual General Meeting pursuant to Article 112(B) and, being eligible, offer themselves for election.

Mr H R Jenkins will retire as a Director at the conclusion of the 2002 Annual General Meeting.

No Director had a material interest in any contract of significance subsisting at the end of, or during, the year involving any Group company, other than those who have a service contract, those set out in Note 32(ii) on page 62 and Mr Berry, who had an option to purchase, at fair market value, the house in Los Angeles that was provided to him rent-free by the Group. This option has now lapsed.

Details of Directors' interests in the shares of the Company are set out in the Remuneration Report on pages 28 and 29.

### Auditor

Resolutions to reappoint Ernst & Young LLP as the Company's auditor and authorising the Directors to determine its remuneration will be put to the forthcoming Annual General Meeting.

### Annual General Meeting

The 2002 Annual General Meeting of the Company will be held at 11.30am on Friday, 19 July 2002 at the Hotel Inter-Continental London, 1 Hamilton Place, Hyde Park Corner, London W1. The Notice of the Annual General Meeting accompanies this Annual Report. In addition to the ordinary business of the meeting, resolutions will be put to shareholders to give authority to the Directors to allot shares, to disapply pre-emption rights and to purchase the Company's own shares. Further explanations of these matters are provided in the letter to shareholders that accompanies the Notice.

Electronic Proxy Appointment (EPA) is being made available for the first time for this year's Annual General Meeting. EPA enables shareholders to lodge their proxy appointment by electronic means via a website provided by Lloyds TSB Registrars at [www.sharevote.co.uk](http://www.sharevote.co.uk); further information is provided on the Proxy Form.

By Order of the Board  
C P Ashcroft  
Secretary  
20 May 2002

EMI is committed to high standards of corporate governance. The Board considers that the Company has complied throughout the year with the Code Provisions set out in Section 1 of the Combined Code issued by the Committee on Corporate Governance, apart from those relating to the length of Directors' service contracts, which are discussed in the Remuneration Report on page 27.

Ernst & Young LLP has reviewed the Company's statement as to its compliance with the Combined Code, in so far as it relates to those parts of the Combined Code which the UK Listing Authority specifies for its review, and its report is set out on page 31.

The remainder of this section provides an explanation of how EMI applies the principles of good governance that are set out in the Combined Code.

#### **The Board**

The Board of EMI currently comprises four Executive Directors and four Non-executive Directors. All of the Non-executive Directors are considered to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. The Board considers that this includes Dr Harald Einsmann, who has been a Non-executive Director since 1992. As reflected in their biographies, which appear on pages 18 and 19, the Directors have a wide and balanced range of experience in multinational and consumer-orientated businesses.

Eric Nicoli is both Chairman and the senior executive officer of the Company. Day-to-day executive responsibility for the running of the Company's two main businesses lies with Alain Levy, as Chairman and Chief Executive Officer, EMI Recorded Music, and Martin Bandier, as Chairman and Chief Executive Officer, EMI Music Publishing, who each report to Eric Nicoli. Given the roles of Mr Levy and Mr Bandier, the Board considers that the appointment of an executive Chairman, who brings complementary skills and experience, is the most effective structure for EMI and is in the best interests of both the Company and its shareholders. It also appropriately recognises EMI's position as a listed company, whilst avoiding duplication of roles and a resulting diffusion of management responsibility. The Board further considers that the nature and level of matters reserved for decision, either to the Board as a whole or to standing committees of the Board, appropriately limit the authority of the Chairman and reflect the fact that the posts of chairman and senior executive officer are combined in one person.

It is the Board's policy that, so long as the Chairman is also the senior executive officer of the Company, the independent Non-executive Directors should comprise a numerical majority of the Board and that the senior independent Non-executive Director should also be either sole or joint Deputy Chairman. During the financial year ended 31 March 2002 there were five Non-executive Directors. The Board is taking action to restore the number of Non-executive Directors to five following the resignation on 7 May 2002 of Mr Jackson and the impending retirement of Mr Jenkins at the conclusion of the 2002 Annual General Meeting. Sir Dominic Cadbury is the senior independent Non-executive Director.

The Board as a whole considers the appointment of Directors and executive appointments within the Board, based on recommendations from the Nomination Committee. The Articles of Association include a requirement that all Directors should submit themselves for re-election by the shareholders at least once every three years.

The Board meets at least six times each year, with additional meetings or contact between meetings as necessary. The programme for each year is approved by the Board. Currently, the programme includes reviews of strategy together with the operations and results of the two main business units, as well as the approval of annual budgets. Actual results for the Group and individual business units are reported to all Directors each month. At least once each year the Board meets at the premises of one of the Group's business operations, to allow for presentations by, and more detailed discussions with, local management.

These procedures, together with other regular and ad hoc reports, are intended to ensure that the Board is supplied in a timely manner with information that is appropriate to the discharge of its duties.

The Board has delegated certain matters to standing committees, details of which are set out below. However, to ensure its overall control of the Company's affairs, the Board has reserved certain matters to itself for decision. These include the Group's strategic plans and annual operating budgets, significant acquisitions or disposals of companies, businesses or assets, and significant contractual commitments or items of expenditure, together with policies relating to the Group's treasury function, pensions, major litigation, employee share schemes, and environmental and ethical issues.

All Directors have access to the services and advice of the Company Secretary. There are also procedures for Directors, in appropriate circumstances, to obtain independent professional advice at the cost of the Company.

The Executive Directors are permitted to take external appointments as non-executive directors, usually up to a maximum of two. They may retain the remuneration from such appointments. All appointments must be approved by the Board to ensure that they do not give rise to conflicts of interest.

**Board committees**

The principal committees of the Board are the Audit, Remuneration, Nomination and Executive Committees. Reflecting the important role played by the independent Non-executive Directors in ensuring high standards of corporate governance, the Audit and Remuneration Committees comprise all the Non-executive Directors. Each committee has written terms of reference and levels of authority and, except in the case of the Remuneration Committee, minutes of meetings are circulated to all Directors.

The role of the Remuneration Committee, which is chaired by Sir Dominic Cadbury, is described on page 24. It meets at least three times each year. The main responsibilities and procedures of the other three principal Committees are as follows:

*Audit Committee* – chaired by Kathleen O'Donovan and comprising all the Non-executive Directors – makes recommendations to the Board regarding the appointment of the external auditor. Each year the Audit Committee reviews the independence and objectivity of the external auditor with a view to confirming that, in its view, the maintenance of objectivity on the one hand and value for money on the other have been kept appropriately in balance. In this context, the Committee considers that it is appropriate for the external auditor to provide to the Group tax compliance, tax planning and other accounting services, including those in connection with supporting and reporting on financial representations in public documentation. The provision of other services is considered on a case-by-case basis. The Committee reviews the half-year and annual financial statements, with particular reference to accounting policies and practices, and the scope and results of the audit.

It also reviews the Group's system of internal control including the risk assessment and audit plan of the Internal Audit Department and other control procedures. The Committee meets three times each year and its meetings are normally attended by the Group Chief Financial Officer, the external auditor and the Vice President, Internal Audit. At least once each year the Committee meets with the external auditor without the presence of Executive Directors or other management.

*Nomination Committee* – chaired by Sir Dominic Cadbury and comprising all the Non-executive Directors and the Chairman – makes recommendations to the Board on the appointment of Directors and the reappointment of Non-executive Directors on the expiry of their three-year term of appointment. The Committee meets when required.

*Executive Committee* – chaired by the Chairman and comprising the chief executive officers of the Company's two main businesses, together with the Group Chief Financial Officer – is responsible for the approval of acquisitions, divestments, capital expenditure and contractual commitments below the level which the Board has reserved to itself for decision, and for certain operational, administrative and other routine matters. The Committee also regularly reviews and reports to the Board on the performance of the Group's businesses. The Committee meets at least ten times each year and senior Group executives regularly attend meetings.

**Directors' remuneration**

The Remuneration Report on pages 24 to 29 gives information about the Company's policy and procedures in this regard, together with the Directors' remuneration.

**Directors' responsibilities**

UK company law requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and Group as well as the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors confirm that they have complied with these requirements in preparing the financial statements on pages 32 to 63.

The Directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Going concern**

The Directors believe, after making inquiries that they consider to be appropriate, that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### Internal control

The Board is responsible for the Group's systems of internal control and for reviewing their effectiveness. These can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The full Board meets regularly throughout the year and the matters specifically reserved for its approval ensure that the Directors maintain control over significant strategic, financial and compliance matters.

The Group has an established organisational structure with clearly defined lines of responsibility and reporting. The Board has devolved to executive management responsibility for implementing and maintaining the Group's system of internal control. Each business unit operates in accordance with policies and procedures applicable to all of the Group's units.

The Group operates comprehensive annual planning, financial reporting and forecasting processes. The Board formally approves strategic plans and annual budgets. The Group's performance is monitored against budget on a monthly basis and all significant variances are investigated. There are defined authorisation procedures in respect of certain matters, including capital expenditure, investments, the granting of guarantees and the use of financial instruments. The Board also receives, twice yearly, a review of all material litigation undertaken by or against the Group's companies and considers the associated risks.

The strength of an internal control system is dependent on the quality and integrity of management and staff: those at senior levels are informed about their responsibilities as to the maintenance of sound systems of internal control. A routine Group-wide process, which requires key executives and managers to certify their compliance with the Group's policies and procedures, reinforces this integrity.

The internal audit function operates as one Group-wide department which monitors and supports the internal control system and reports both to the Audit Committee and the Group's senior management. The responsibilities of the internal audit function include recommending improvements in the control environment and ensuring compliance with the Group's procedures and policies. The Audit Committee reviews the risk assessment and audit plan prepared by the Internal Audit Department.

An ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been in place for the year under review and up to the date of this Report. This process is regularly reviewed by the Board and accords with the requirements of Internal Control: Guidance for Directors on the Combined Code.

During the year to 31 March 2002, significant potential risks facing the Group have been assessed and graded in a process involving line and functional management throughout the Group, internal audit and Ernst & Young LLP. The controls in place to manage or mitigate each risk were reviewed for adequacy, and the processes to monitor and inform the Board about control performance were confirmed. This assessment, which is reviewed by the Audit Committee, will be repeated annually. The risk and control assessment is also shared with senior management throughout the Group. During the review of controls, particular attention was paid to those in place to manage or mitigate any potential risks associated with major artist investments.

The Board is aware of the ABI disclosure guidelines on social responsibility and intends to review its risk assessment and reporting arrangements to ensure it can comply fully in future. Existing risk assessment procedures cover social, ethical and environmental issues. An environment and community report is also published annually.

The Audit Committee receives additional assurance on the operation of internal control systems around the Group, primarily from internal audit, which presents the conclusions of its reviews twice a year. The external auditor also takes internal financial control into consideration as part of its audit. In addition, incidences of control failure and the internal control implications of significant business issues are recorded in a central register, from which a summary report is prepared for the Audit Committee. Appropriate actions are taken to rectify any control failures. Any significant new issues and material changes to the risk environment are reported at each Board meeting.

The processes by which the Board receives assurance on the effectiveness of the control systems do not apply to HMV Group plc, in which the Group had a minority investment during the year ended 31 March 2002. Potential risks to EMI were mitigated during the year through its representation on the Board of HMV Group and rights under shareholders' agreements.

### Investor relations

The Group is committed to regular and open dialogue with investors. The Executive Directors hold discussions with institutional shareholders and analysts and, in addition, there are general presentations after the announcement of the half-year and annual results. Individual shareholders have the opportunity to question the Chairman and other Directors at the AGM and can meet them informally after the AGM. Results announcements and other press releases are made available on the Group's website as soon as possible after their publication.



## Remuneration policy

The achievement of success in the highly competitive worldwide music market depends critically upon the Company's ability to compete for the management talent necessary to secure, develop and promote recording artists, composers and songwriters. EMI's remuneration policies have, therefore, reflected the need to attract, retain and motivate top calibre international management in the context of remuneration levels and practices in the international music and entertainment industry, many of which are set in the US. Moreover, the majority of the Group's senior executives are based in, or drawn from, markets outside the UK with only 11% being based in the UK, with the result that much of the compensation environment is set outside the UK. The Group's remuneration policies also recognise that the Music Publishing and the Recorded Music businesses operate in distinct marketplaces. The levels and forms of remuneration will continue to be tailored to the different marketplaces in which the Group competes and to recognise the overall importance of creative talent.

The recruitment of Alain Levy as Chairman and Chief Executive Officer of EMI Recorded Music involved a different balance between monetary and share-based rewards. A significantly reduced level of base salary and cash bonus, as compared to equivalent positions in other major record companies, is coupled with a greater than hitherto level of share options, including an initial grant with graduated exercise prices, with exercise being subject to a further performance condition requiring real growth in earnings per share.

As the restructuring of the Group's Recorded Music business has been implemented, the remuneration packages for many senior executives have been revised to provide a greater link between reward and performance, with incentives connected to objective measures of performance. These include the use of share options to reduce the element of fixed remuneration, and bonus based on, for example, profitable increases in market share, improvements in margins, the control of overheads and the breaking of new acts.

The remuneration packages of the Executive Directors are designed to help them attain, and encourage them to retain, long-term interests in the Company's shares, and to align their interests with those of the shareholders. Performance-related elements represent a significant proportion, typically providing some two-thirds of their total annual remuneration opportunity.

## Remuneration Committee

The Board has delegated to the Remuneration Committee approval of the remuneration and employment terms of the Executive Directors and other senior executives, including pension rights and any compensation payments.

The Committee consists entirely of the Non-executive Directors. It is chaired by Sir Dominic Cadbury, the Deputy Chairman and senior independent Non-executive Director. The names of the members of the Committee are listed on page 19. The Chairman is invited to attend the Committee's meetings on matters other than those concerning himself, and the Group Director, Human Resources, also attends.

The Committee has access to internal resources and has taken external advice as and when it requires. In addition, to assist it in monitoring the level and mix of remuneration packages, the Committee has access to a number of music and general industry remuneration surveys, both local and international, covering a range of companies. The Committee takes into account factors such as the nature, size, complexity and international profile of those companies relative to EMI.

## Elements of remuneration

### Base salary and benefits

The Executive Directors' base salaries are set by the Committee and are normally reviewed annually. Benefits typically include car, life assurance, retirement, disability and healthcare plans.

Details of the base salaries and benefits for individual Executive Directors are set out on page 28.

### Annual bonus

The Executive Directors and other senior executives are eligible for an annual bonus based on profit performance targets set by the Remuneration Committee for the Group or individual business units. Under EMI's Senior Executive Incentive Plan (SEIP), performance is measured by reference to a demanding *target profit level* at which the target award is earned, and a *maximum profit level* at which the maximum award is earned. Target and maximum awards are calculated as a percentage of base salary. Any cash bonus earned is paid immediately or, at the executive's request, is made in the form of a deferred share award. During deferral, the shares do not earn dividends but, to encourage shares to be held, the number of shares is increased by one-third if deferred for three years and by two-thirds if deferred for at least six years. These increases are included in reported remuneration only at the end of the applicable deferral period.

For the year to 31 March 2002, Mr Nicoli's bonus opportunity at target and maximum performance, respectively, was 40% and 80% of base salary. The performance target for Mr Nicoli was related to the Group's profit after tax.

Mr Levy commenced employment on 15 October 2001 and, under his service agreement, is entitled to a cash bonus in respect of the year ended 31 March 2002 of up to £350,000. The Board has agreed to award him the full bonus, reflecting progress with the far-reaching restructuring plans announced on 20 March 2002. For subsequent years, Mr Levy's maximum cash bonus is up to 200% of base salary, based on achieving preset profit margin goals for EMI Recorded Music.

Mr Bandier's bonus opportunity for the year was 50% of base salary at target and 80% of base salary at maximum performance. His performance target related to the economic profit achieved by EMI Music Publishing, taking into account the value of assets assigned to the business.

Mr Faxon was Chief Financial Officer of EMI Music Publishing until 5 February 2002 and his bonus opportunity for the year to 31 March 2002 was 40% of base salary at target and 80% of base salary at maximum performance. His performance target also related to the economic profit achieved by EMI Music Publishing but will, in future years, be based on the achievement of Group-wide performance targets.

Details of the bonuses achieved during the year by individual Executive Directors are set out on page 28.

#### *Long-term incentives*

Executive Directors and other senior executives have normally been eligible each year for performance-related share awards under the SEIP, calculated as a percentage of base salary. Each year's award vested at the end of a three-year performance period, the number of shares released depending upon Group or business unit performance against profit targets for the three-year period set by the Remuneration Committee. In certain circumstances, for example upon a change of control, awards could be released before the normal vesting date.

As with the annual bonus, to encourage long-term interests in the Company's shares, executives could opt to defer the share award for a further three-year period, with the number of shares being increased by one-third at the end of the deferral period.

In the case of the Executive Directors, release of the share award was subject to a further performance requirement related to the Group's Total Shareholder Return, i.e. share price growth plus the value of dividends paid. For SEIP awards granted up to 31 March 2002 to be released, EMI's Total Shareholder Return must have at least equalled the median of those companies that comprised the FTSE 100 at the start of the three-year performance cycle.

Share awards to the Executive Directors are noted in the tables on pages 28 and 29, but are included in reported remuneration only on release at the end of the three-year performance cycle.

The current potential value of the performance-related share award for Mr Nicoli at target and maximum performance, respectively, is 60% and 120% of base salary.

Mr Levy does not participate in share awards under the SEIP as, instead, he has received, and will receive in the future, options under the Executive Share Option Scheme (ESOS). At commencement of his employment, Mr Levy was granted options over 10,000,000 shares at exercise prices ranging from £3 to £7 per share. Mr Levy is also entitled to additional grants of options over 2,000,000 shares each year. These levels of grant reflect the fact that his base salary and potential cash bonus is significantly lower than for equivalent positions in other major record companies, and are designed to align his interests closely with those of shareholders.

In place of the normal overlapping annual share awards based on three-year performance cycles, Mr Bandier has been granted a one-time share award under the SEIP of up to 1,250,000 shares. This award replaced Mr Bandier's previously reported one-time performance-related share award over 650,000 shares, which lapsed prior to the completion of the four-year performance period to 31 March 2002. The new award will be released at the end of a performance period ending on 31 March 2006, the number of shares released depending upon EMI Music Publishing's performance against aggregate profit growth targets over the performance period. Because Mr Bandier's primary responsibility is to focus on the performance of Music Publishing, release of this share award is not subject to the Total Shareholder Return test referred to above.

In certain circumstances the award may be released before the vesting date, for example on termination of the executive's employment agreement because of breach by EMI or following a change of control. The award lapses if, prior to the vesting date, either Mr Bandier resigns voluntarily or his employment agreement is terminated by the Group for cause (as defined in the contract). The Committee considers that this one-time share award reinforces the primary focus on achieving growth in profits over the long run, as well as providing a strong incentive for Mr Bandier to remain with the Group.

As a senior executive of the EMI Music Publishing business during the year, Mr Faxon participated in the SEIP and his outstanding award opportunities are included in the tables on pages 28 and 29. On being appointed an Executive Director, Mr Faxon received an initial grant of options under the ESOS over 500,000 shares. He is also entitled to future annual option grants over 250,000 shares, representing approximately 1.5 times base salary, and is eligible to receive further grants of options under the ESOS.

Awards to Executive Directors under previous incentive plans are detailed in previous years' Annual Reports. The Executive Directors' share interests arising from the SEIP and other incentive plans are noted on pages 28 and 29.

#### *Restricted shares*

Mr Bandier has also been granted a restricted share award under the SEIP of 662,500 shares. These shares will vest no earlier than 31 March 2006. The award is in lieu of additional base salary and is not subject to performance requirements. The aim of the award is to bring Mr Bandier's basic annual remuneration into line with competitive practice in the US, where he is based, whilst aligning his interests more closely with those of the shareholders and providing him with a strong incentive to remain with the Group. Mr Bandier's previously reported restricted share award over 350,000 shares vested on 31 March 2002.

Mr Bandier's restricted share award will lapse if, prior to the vesting date, he resigns voluntarily or his employment agreement is terminated for cause. All or part of the award may also vest before the planned vesting date in certain circumstances, including if the executive's employment agreement is terminated without cause, or upon a change of control.

Mr Nicoli was granted a restricted share award under the SEIP of 65,000 shares, which vested on 31 March 2002. The award provided Mr Nicoli with a replacement for lost potential value from employee share incentives operated by his previous employer and was not subject to performance requirements.

Whilst in certain circumstances these restricted share awards may lapse or be released before the vesting date, a proportion of their value is included in reported remuneration each year. As described in Note 15 on page 48, entitlements to performance-related and restricted share awards under the SEIP are met from shares purchased in the market and held by the EMI Group General Employee Benefit Trust and, therefore, do not dilute shareholders' equity.

# Remuneration Report

continued

## Share options

As described above, in the year ended 31 March 2002, Mr Levy and Mr Faxon were granted options under the ESOS. In both cases the options were in lieu of performance-related awards under the SEIP. The UK-based Executive Directors are also entitled, together with all other eligible employees, to apply for options, normally annually, under the Savings-Related Share Option Scheme (ShareSave).

The Executive Directors' grants of share options are noted on page 29. Executive share options are normally exercisable between three and ten years from the date of grant and, if granted on or after 25 August 1995, only if performance targets set by the Remuneration Committee are met. The target set for these options relates either to the Group's Total Shareholder Return or, more recently, the increase in its Adjusted Earnings per Share at a rate of 2.5% or 3% above the compound growth in the UK retail prices index. The aggregate exercise price of outstanding executive options over new issue shares is limited to four times annual earnings, with any excess being granted over shares purchased in the market by the Employee Benefit Trust.

## Retirement benefits and contributions

The UK-based Executive Directors are executive members of the UK Pension Fund, which provides them, on normal retirement at age 60, with a pension of up to two-thirds of base salary. Members contribute 4% of base salary. On death there is a spouse's pension of two-thirds of the member's pension (ignoring the impact of any exchange of pension for a lump sum on retirement), plus child allowances if applicable. An early retirement pension may be paid on leaving on or after age 50, but the pension is reduced by 1/3% for each month that pension starts earlier than age 60. Subject to the Company's consent, the reduction applied may be less.

Transfer values are calculated on a basis that assumes the pension would be drawn at the earliest date where no reduction would apply and with allowance for future pension increases (both before and after pension commences) to reflect the past practice of granting increases greater than those guaranteed.

Up to age 65, the whole of a pension in payment is guaranteed to increase by LPI (the lower of the previous year's increase in the Retail Prices Index and 5%). After age 65, the pension in excess of the Guaranteed Minimum Pension or GMP (that part of the pension which replaces the State Earnings Related Pension) is guaranteed to increase by LPI, while that part of the GMP which built up since 6 April 1988 is guaranteed to increase by the lower of the previous year's increase in the Retail Prices Index and 3%.

For those joining the UK Pension Fund after 31 May 1989, the 'Cap' (as defined in the Finance Act 1989) limits salary for pension purposes to £97,200 from 6 April 2002 (2001: £95,400). The Company therefore makes contributions to a separate defined contribution plan that provides additional benefits to those affected by the Cap. Executive Directors affected by the Cap and the after-tax value of contributions, expressed as a percentage of base salary in excess of the Cap, which the Company paid to the defined contribution plan in respect of them, were:

Mr E L Nicoli	33.42%
Mr A M J I Levy	30%
Mr A J Bates	33.9%

Mr Bandier participates in EMI Music's US defined contribution plans, which aim to provide a pension at normal retirement date of 50% of pay. Contributions to the plans were 14% and 33.45% of pay by Mr Bandier and the Group, respectively. Consistent with US practice, pay for this purpose includes the value of annual cash bonuses under the SEIP.

Mr Faxon participates in the Group's US deferred compensation, 401(k) savings and executive retirement defined contribution plans. Contributions to the plans were 6% and 50% of base salary by Mr Faxon and the Group, respectively.

## Executive Directors' retirement benefits and contributions during the year

	Age as at 31 March 2002 Years	Directors' contributions in year £'000	Company contributions in year <sup>a</sup> £'000	Defined benefit plan only Accrued pension entitlement Increase in year <sup>b</sup> £'000 pa	Total as at 31 March 2002 <sup>c</sup> £'000 pa
<b>Executive Directors:</b>					
E L Nicoli	51	4	299 <sup>d</sup>	2	5
M N Bandier	60	515	1,230	-	-
A M J I Levy (appointed 15 October 2001)	55	2	122 <sup>d</sup>	1	1
R C Faxon (appointed 5 February 2002)	53	14	34	-	-
<b>Former Directors:</b>					
K M Berry (resigned 14 October 2001)	50	-	nil	129	387
A J Bates (resigned 4 February 2002)	45	3	242 <sup>d</sup>	3	29

<sup>a</sup> Company contributions shown are to defined contribution plans only. The comparative 2001 figure was £1,074,000. The Company made no contribution to the UK Pension Fund in respect of the Executive Directors (due to a continuation of its suspension of contributions as a result of the Fund's strong financial position).

<sup>b</sup> The increase during the year, net of the effect of inflation, on the pension built up to 31 March 2001 (or actual date of appointment if later), to which each Director would be entitled from normal retirement age had he left employment at 31 March 2002 or actual date of leaving, if earlier.

<sup>c</sup> The total accrued pension entitlement to which each Director would be entitled from normal retirement age had he left employment at 31 March 2002 or actual date of leaving, if earlier.

<sup>d</sup> Individual figures include an amount paid in respect of the tax charge arising from the Company's contributions on base salary in excess of the Cap, as follows:

E L Nicoli	119,592
A M J I Levy	48,717
A J Bates	80,647
<b>Total</b>	<b>248,956</b> (2001: £196,376)

### Service contracts

The Combined Code recommends that one-year notice periods or contract terms be set as a firm objective for directors. However, fixed-term contracts of three or more years are the norm for senior executives in the global entertainment industry. In the light of such competitive practices, the Board considers that it is in the best interests of the Company and its shareholders to retain the flexibility to compete for top executive talent through the ability to offer contract terms in excess of one year.

Mr Nicoli has a service contract terminable on one year's notice. Following a change of control of the Company, the notice period from the Company will be two years. Any compensation payable to Mr Nicoli on early termination of his service contract would be subject to a requirement to mitigate, except that in the case of termination following a change of control of the Company, the first year's compensation would not be subject to this requirement.

Mr Levy and Mr Faxon have service contracts which allow the employer to terminate the contract at any time without notice, with a specified severance payment (broadly, base salary, benefits and target bonus for one year) being payable on termination by the employer without cause (as defined in the contract). The executive may also terminate the contract at any time for good reason (as defined in the contract), in which event a similar severance payment is payable. In the light of competitive music industry practice, where one-year contracts are unusual, there is no obligation on the executive to mitigate or to offset any earnings from alternative employment during the year following termination against the severance payment. In other circumstances, the executive must give one year's notice (six months' by Mr Levy) of termination.

Mr Bandier's agreement is similar, but provides for a severance payment of, broadly, base salary, benefits and target bonus for two years. The Remuneration Committee considers that these terms for Mr Bandier are appropriate in view of competitive practice in the US, where he is resident, and the fact that the employment agreement is intended to secure his services until retirement at age 65.

Following a change of control of the Company, the specified severance payments for Mr Levy and Mr Faxon would be based on base salary, benefits and target bonus for two years. Additionally, following a change of control, Mr Bandier is entitled to terminate his service contract after a one-year transitional period and to receive a severance payment as if he had terminated the contract with good reason. Mr Bandier's contract also provides for its automatic expiry on 31 March 2006.

### Non-executive Directors

Fees for Non-executive Directors were increased by 7% during the year. Each Non-executive Director receives a basic fee, which is inclusive of all committee memberships. Sir Dominic Cadbury receives a further amount in respect of his additional duties and responsibilities in his capacity as Deputy Chairman and senior independent Non-executive Director. Kathleen O'Donovan also receives a further sum for chairing the Audit Committee. The level of these fees is set by the Board and the Non-executive Directors take no part in the discussion and do not vote on the matter. The Non-executive Directors do not participate in the Company's incentive, share option or retirement plans, nor do they have service contracts, but each appointment is subject to review at least every three years.

### Former Executive Directors

During the year, the employment of Ken Berry as Chief Executive Officer of EMI Recorded Music, and of Tony Bates as Group Finance Director and Executive Vice President and Chief Financial Officer of EMI Recorded Music, was terminated by mutual agreement. Mr Berry left employment and ceased to be a Director on 14 October 2001. Mr Bates ceased to be a Director on 4 February 2002 but will continue to be employed by the Company until 31 May 2002. The table on page 28 gives details of the payments to each of them in connection with the termination of their employment, which reflect their contractual entitlements. These payments were prescribed by the terms of the executives' employment agreements, which in turn reflected competitive industry practice. The entitlement to such payments on termination of employment has been disclosed in the Group's Annual Reports for all years since the employment agreements were entered into. As explained in the tables, certain restricted share awards, as well as shares granted in respect of previous bonus entitlements, vested upon termination of employment. All other contingent share awards have lapsed, or will lapse, since the relevant performance conditions have not been, or will not be, met.

# Remuneration Report

continued

## Remuneration details

### Annual remuneration\*

	Base salary or fees £'000	Compensation for loss of office £'000	Benefits £'000	Annual bonus £'000	2002 Total in year £'000	2001 Total in year £'000
<b>Executive Directors:</b>						
E L Nicoli	631.2	—	54.3	—	685.5	909.4
M N Bandier <sup>a</sup>	2,045.4	—	44.8	1,636.4	3,726.6	2,639.8
A M J I Levy (appointed 15 October 2001)	317.2	—	71.1	350.0	738.3	—
R C Faxon (appointed 5 February 2002)	67.2	—	4.7	31.5	103.4	—
<b>Former Directors:</b>						
K M Berry (resigned 14 October 2001)	1,136.4	6,076.2	235.5 <sup>c</sup>	—	7,448.1	2,975.5
A J Bates (resigned 4 February 2002)	520.0	1,719.1	37.2	—	2,276.3	731.8
Sir Colin Southgate (resigned 16 July 1999)	—	—	—	—	—	0.9
<b>Non-executive Directors:</b>						
Sir Dominic Cadbury	53.1	—	—	—	53.1	50.4
H Einsmann	32.4	—	—	—	32.4	30.4
M R Jackson	32.4	—	—	—	32.4	30.4
H R Jenkins	32.4	—	—	—	32.4	30.4
K A O'Donovan	37.4	—	—	—	37.4	35.4
<b>Total 2002</b>	<b>4,905.1</b>	<b>7,795.3</b>	<b>447.6</b>	<b>2,017.9</b>	<b>15,165.9</b>	<b>—</b>
<b>Total 2001</b>	<b>4,806.4</b>	<b>—</b>	<b>523.9</b>	<b>2,104.1</b>	<b>—</b>	<b>7,434.4</b>

\*Excludes retirement contributions (see table on page 26) and the value of share awards ceasing to be contingent, as reported in the table shown below.

<sup>a</sup>Highest-paid Director.

<sup>c</sup>Includes value of housing provided by the Group in the US on a rent-free basis, and tax equalisation payments relating to service in California.

### Remuneration from prior-year share awards ceasing to be contingent

	Awards No. of shares	2002 Total value <sup>a</sup> £'000	Awards No. of shares	2001 Total value <sup>a</sup> £'000
<b>Executive Directors:</b>				
E L Nicoli	21,667 <sup>b</sup>	78.5	21,667 <sup>b</sup>	98.5
M N Bandier	87,500 <sup>b</sup>	317.2	87,500 <sup>b</sup>	397.7
A M J I Levy (appointed 15 October 2001)	—	—	—	—
R C Faxon (appointed 5 February 2002)	—	—	—	—
<b>Former Directors:</b>				
K M Berry (resigned 14 October 2001)	229,912 <sup>b</sup>	784.6	181,250 <sup>b</sup>	823.8
A J Bates (resigned 4 February 2002)	75,344 <sup>b</sup>	273.1	48,443 <sup>b</sup>	220.2
Sir Colin Southgate (resigned 16 July 1999)	—	—	19,555	88.9
<b>Total</b>	<b>414,423</b>	<b>1,453.4</b>	<b>358,415</b>	<b>1,629.1</b>

<sup>a</sup>The value is based on the share price on the date that awards ceased to be contingent.

<sup>b</sup>As referred to on page 25, these include a proportion of restricted share awards to match remuneration costs more accurately to the time period in which the shares are earned, even though in certain circumstances these awards could lapse or be released before the vesting date.

## Directors' interests

### Directors' interests (all beneficial) in the Company's Ordinary Shares of 14p each<sup>a</sup>

	Total shares held	As at 31 March 2002 Of which Other <sup>c</sup>	Total shares held	As at 1 April 2001, or date of appointment, if later Of which Other <sup>c</sup>
<b>Executive Directors:</b>				
E L Nicoli <sup>d</sup>	138,032 <sup>e</sup>	133,982	71,610	67,722
M N Bandier	155,060 <sup>e</sup>	—	155,060	—
A M J I Levy (appointed 15 October 2001)	700,000	—	200,000	—
R C Faxon (appointed 5 February 2002)	220,027	183,554	220,027	183,554
<b>Non-executive Directors:</b>				
Sir Dominic Cadbury	20,000	—	5,000	—
H Einsmann	1,800	—	1,800	—
M R Jackson	739	—	739	—
H R Jenkins	1,101	—	1,101	—
K A O'Donovan	2,000	—	2,000	—

<sup>a</sup>The Company's Register of Directors' Interests is available for inspection in accordance with the provisions of the Companies Act 1985.

<sup>b</sup>No Director had any interest in either shares or debentures of any subsidiary of the Company.

<sup>c</sup>Other refers to non-contingent share awards under performance-related incentive plans (i.e. they have ceased to be dependent on future performance and/or are no longer subject to forfeiture). Most of the Executive Directors also have contingent share interests under performance-related incentive plans, as noted in the following table.

<sup>d</sup>On 26 April 2002, Mr Nicoli's interests in the Company's shares increased by 48 shares on the reinvestment of dividends and tax credits received in respect of shares held by him and his wife through EMI Corporate Personal Equity Plans.

<sup>e</sup>The total of shares held does not include restricted share awards of 65,000 shares and 350,000 shares, respectively, that vested during the year as the shares could not be delivered to Mr Nicoli and Mr Bandier until after the close period for Directors' share dealings which will end on 21 May 2002.

# Directors' restricted and contingent share awards under long-term incentive plans<sup>a,b</sup>

	As at 1 April 2001 or date of appointment, if later	Contingent shares awarded in year	Restricted share awards included in remuneration in year <sup>c</sup>	Contingent awards becoming non-contingent in year	Lapsed in year	As at 31 March 2002	Total restricted share awards included in remuneration for the years to 31 March 2002 <sup>d</sup>	Restricted share awards vested in year	Total restricted and contingent share awards as at 31 March 2002
<b>Executive Directors:</b>									
E L Nicoli	423,774	251,235	(21,667)	—	(190,909)	462,433	65,000	(65,000)	462,433
M N Bandier <sup>e</sup>	1,029,751	1,912,500	(87,500)	—	(650,000)	2,204,751	350,000	(350,000)	2,204,751
A M J I Levy <sup>f</sup>	—	—	—	—	—	—	—	—	—
R C Faxon <sup>g</sup>	533,828	—	—	—	(115,074)	418,754	—	—	418,754
<b>Former Directors:</b>									
K M Berry <sup>h</sup>	1,856,411	72,085	(181,250)	(48,662)	(1,692,682)	5,902	725,000	(725,000)	5,902
A J Bates <sup>i</sup>	484,426	213,674	(75,344)	(30,002)	(474,067)	118,687	129,161	(129,161)	118,687

<sup>a</sup>Contingent share awards are dependent on future performance and/or subject to forfeiture. The figures shown therefore reflect the maximum possible potential share interests.

<sup>b</sup>As referred to on page 25, these include a proportion of restricted share awards to match remuneration costs more accurately to the time period in which the shares are earned, even though in certain circumstances these awards could lapse or be released before the vesting date.

<sup>c</sup>Includes potential awards of 1,250,000 Performance Shares and 662,500 Restricted Shares made to Mr Bandier under the terms of his service contract, as detailed on page 25.

<sup>d</sup>Appointed 15 October 2001.

<sup>e</sup>Appointed 15 February 2002.

<sup>f</sup>Resigned 14 October 2001. In this table and the table below, Mr Berry's share interests and awards include those of his wife, Mrs N A Berry, who was also an employee of the Group. An award will remain outstanding in respect of Mrs Berry over a total of 5,902 shares until no later than 30 June 2003. Vesting of this award is dependent on the achievement of performance targets; otherwise the award will lapse.

<sup>g</sup>Resigned as a Director on 4 February 2002. Of the outstanding awards, those over 474,067 shares will lapse on or before 31 May 2002 when Mr Bates ceases to be an employee of the Group. On that date, awards over a further 30,002 shares will vest and become available for release. Awards over the balance of 118,687 shares will remain outstanding until no later than 30 June 2004; the vesting of such awards is dependent on the achievement of performance targets, otherwise the awards will lapse.

## Directors' share options over Ordinary Shares of 14p each<sup>a</sup>

	Date granted	Exercise price	As at 1 April 2001, or date of appointment, if later	Granted in year	As at 31 March 2002
<b>Executive Directors:</b>					
E L Nicoli	3 June 1999	440.000p	60,000	—	60,000
	21 December 2000 <sup>b</sup>	442.000p	3,817	—	3,817
Total			63,817	—	63,817
M N Bandier	25 August 1995	590.315p	253,084	—	253,084
	23 August 1996	734.500p	60,000	—	60,000
	6 June 1997	575.000p	52,144	—	52,144
Total			365,228	—	365,228
A M J I Levy	15 October 2001	300.000p	—	3,000,000	3,000,000
(appointed 15 October 2001)	15 October 2001	400.000p	—	3,000,000	3,000,000
	15 October 2001	500.000p	—	2,000,000	2,000,000
	15 October 2001	700.000p	—	2,000,000	2,000,000
	2 January 2002	357.300p	—	2,000,000	2,000,000
Total			—	12,000,000	12,000,000
R C Faxon	23 August 1996	734.500p	67,500	—	67,500
(appointed 5 February 2002)	6 June 1997	575.000p	50,326	—	50,326
	5 February 2002	305.000p	—	500,000	500,000
Total			117,826	500,000	617,826
<b>Former Directors:</b>					
K M Berry <sup>c</sup>	22 July 1994	534.000p	200,000	—	200,000
(resigned 14 October 2001)	25 August 1995	747.000p	231,500	—	231,500
	23 August 1996 <sup>d</sup>	par (14p)	54,146	—	54,146
	23 August 1996 <sup>d</sup>	par (14p)	62,672	—	62,672
	23 August 1996	734.500p	430,000	—	430,000
	6 June 1997	575.000p	206,778	—	206,778
	5 June 1998	531.500p	16,000	—	16,000
Total			1,201,096	—	1,201,096
A J Bates <sup>e</sup>	23 August 1996	734.500p	67,500	—	67,500
(resigned 4 February 2002)	27 March 1997 <sup>f</sup>	466.000p	3,700	—	3,700
	6 June 1997	575.000p	51,672	—	51,672
Total			122,872	—	122,872

<sup>a</sup>No Directors' share options were either exercised or lapsed in the year. Therefore, the total gain made on the exercise of share options was £nil (2001: £nil). The closing mid-market share price as at 31 March 2002 was 362.5p. The range of closing mid-market share prices during the year was 214p to 506p. Executive share options are normally exercisable during the period commencing no earlier than three years and ending no later than ten years from the date granted; the exercise of all options granted on or after 25 August 1995 is normally subject to achievement of performance targets, as referred to on page 26.

<sup>b</sup>ShareSave options are normally exercisable for a six-month period following completion of savings to either a three-year or a five-year ShareSave contract.

<sup>c</sup>Subject to the achievement of any related performance conditions, Mr and Mrs Berry may exercise their executive share options up to 14 October 2002 and 23 October 2002, respectively.

<sup>d</sup>Executive share option rights were amended at 23 August 1996 to reflect the demerger. For non-UK residents, an appropriate adjustment was made to each option but, as the Inland Revenue would not permit such an adjustment to UK-approved options, no adjustment was made to the options of UK residents. Instead, in respect of each option, a special par value option was granted, intended to achieve broadly the same effect as if the adjustment had been made and which can only be exercised with, and on the same terms as, the original option to which it relates.

<sup>e</sup>Subject to the achievement of any related performance conditions, Mr Bates may exercise his executive share options up to 31 May 2003, the first anniversary of the date on which he ceased to be an employee of the Group. He may exercise his ShareSave option up to 31 October 2002.

## Financial Contents

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**Independent Auditor's Report to the members of EMI Group plc**

We have audited the Group's financial statements for the year ended 31 March 2002 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Total Recognised Gains and Losses, Reconciliation of Consolidated Shareholders' Funds and the related notes 1 to 34. These financial statements have been prepared on the basis of the accounting policies set out therein.

**Respective responsibilities of Directors and Auditor**

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' Report, Chairman's Statement, Business Reviews, Financial Review and Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2002 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**Ernst & Young LLP**

Registered Auditor  
London  
20 May 2002



# Consolidated Profit and Loss Account

for the year ended 31 March 2002

	Notes	Total £m	Joint venture HMV Group plc £m
Turnover:			
Total (including joint venture)		3,153.7	707.9
Less: joint venture turnover		(707.9)	(707.9)
Group turnover	1	2,445.8	-
Cost of sales	2	(1,726.5)	-
Gross profit		719.3	-
Distribution costs	2	(127.5)	-
Administration expenses	2	(708.9)	-
Other operating income, net	2	16.1	-
Group operating (loss) profit	1&3	(101.0)	-
Share of operating profit in joint venture before exceptional items		44.6	44.6
Share of operating exceptional items in joint venture		(10.3)	(10.3)
Share of operating profit in joint venture		34.3	34.3
Share of operating losses in associated undertakings		(2.9)	-
Total operating (loss) profit		(69.6)	34.3
Non-operating exceptional items	9	-	-
(Loss) profit before finance charges		(69.6)	34.3
Finance charges:			
Group (including associated undertakings)		(60.4)	-
Joint venture before exceptional items		(20.7)	(20.7)
Joint venture – exceptional items		(2.1)	(2.1)
Joint venture		(22.8)	(22.8)
Total finance charges	6	(83.2)	(22.8)
(Loss) profit on ordinary activities before taxation		(152.8)	11.5
Taxation on profit on ordinary activities	7	(38.2)	(7.4)
(Loss) profit on ordinary activities after taxation		(191.0)	4.1
Minority interests (equity)		(8.5)	-
(Loss) profit attributable to members of the Holding Company		(199.5)	4.1
Dividends (equity)	8	(62.2)	-
Transfer from profit and loss reserve		(261.7)	-

Year ended 31 March 2002			Year ended 31 March 2001		
EMI Group (excluding HMV Group plc)	EMI Group (excluding HMV Group plc)	EMI Group (excluding HMV Group plc)	Joint venture	Restated	
Exceptional	Before	Exceptional	HMV Group plc	Total	
Items (Note 9) and	exceptional	Items (Note 9) and			
amortisation	items and	amortisation			
£m	£m	£m	£m	£m	
-	-	-	662.6	3,335.3	
-	-	-	(662.6)	(662.6)	
-	-	-	-	2,672.7	
(133.8)	-	(42.6)	-	(1,739.2)	
(133.8)	-	(42.6)	-	933.5	
(7.6)	-	-	-	(136.9)	
(131.5)	-	(52.4)	-	(608.5)	
(19.0)	-	-	-	49.4	
(291.9)	-	(95.0)	-	237.5	
-	-	-	34.4	34.4	
-	-	-	-	-	
(1.8)	-	(1.7)	34.4	34.4	
(293.7)	-	(96.7)	-	(5.5)	
-	-	-	34.4	266.4	
(293.7)	-	(96.7)	-	-	
-	-	-	34.4	266.4	
-	-	-	-	(74.3)	
-	-	-	(29.3)	(29.3)	
-	-	-	-	-	
-	-	-	(29.3)	(29.3)	
(293.7)	-	-	(29.3)	(103.6)	
7.8	-	(96.7)	5.1	162.8	
(285.9)	-	-	(1.4)	(70.9)	
6.7	-	(96.7)	3.7	91.9	
(279.2)	-	4.1	-	(12.7)	
-	-	(92.6)	3.7	79.2	
-	-	-	-	(125.2)	
-	-	-	-	(46.0)	

# Balance Sheets

at 31 March 2002

	Notes	2002 £m	Group 2001 Restated £m	2002 £m	Company 2001 Restated £m
<b>Fixed assets</b>					
Music copyrights	11	518.2	546.8	-	-
Goodwill	12	34.0	61.1	-	-
Tangible fixed assets	13	277.3	306.8	13.6	17.2
Investments: subsidiary undertakings	14	-	-	2,386.7	2,316.5
Investments: joint venture (HMV Group plc)	14	-	-	96.5	96.5
Investments: associated undertakings	14	7.1	26.0	0.6	0.6
Other fixed asset investments	14	22.4	22.6	0.2	0.2
Investments: own shares	15	13.1	14.4	13.1	14.4
		872.1	977.7	2,510.7	2,445.4
<b>Current assets</b>					
Stocks	16	43.0	46.1	-	-
Debtors: amounts falling due within one year	17	763.7	868.9	1,176.1	1,186.7
Debtors: amounts falling due after more than one year	17	133.8	115.4	0.6	0.7
Deferred taxation	23	17.1	20.4	-	-
Investments: liquid funds	18	0.7	0.7	-	-
Cash at bank and in hand and cash deposits	18	85.7	136.9	6.5	37.4
		1,044.0	1,188.4	1,183.2	1,224.8
<b>Creditors: amounts falling due within one year</b>					
Borrowings	18	(771.0)	(662.9)	-	-
Other creditors	21	(1,297.1)	(1,358.1)	(78.2)	(130.5)
		(2,068.1)	(2,021.0)	(78.2)	(130.5)
<b>Net current assets (liabilities)</b>					
		(1,024.1)	(832.6)	1,105.0	1,094.3
<b>Total assets less current liabilities</b>					
		(152.0)	145.1	3,615.7	3,539.7
<b>Creditors: amounts falling due after more than one year</b>					
Borrowings	18	(373.3)	(467.5)	-	-
Other creditors	22	(27.4)	(28.9)	(597.0)	(574.0)
		(400.7)	(496.4)	(597.0)	(574.0)
<b>Provisions for liabilities and charges</b>					
Deferred taxation	23	(3.4)	(3.6)	-	-
Other provisions	24	(173.1)	(116.7)	(10.4)	(16.0)
Investments: joint venture (HMV Group plc)	14	-	-	-	-
Share of gross assets		203.3	191.9	-	-
Share of gross liabilities		(363.2)	(360.2)	-	-
		(159.9)	(168.3)	-	-
		(336.4)	(288.6)	(10.4)	(16.0)
		(889.1)	(639.9)	3,008.3	2,949.7
<b>Capital and reserves</b>					
Called-up share capital	25	110.4	110.4	110.4	110.4
Share premium account	25	445.8	445.6	445.8	445.6
Capital redemption reserve	26	495.8	495.8	495.8	495.8
Other reserves	26	256.0	256.0	436.4	456.9
Profit and loss reserve (including goodwill previously written off)	26	(2,338.2)	(2,084.0)	1,519.9	1,441.0
<b>Equity shareholders' funds</b>		(1,030.2)	(776.2)	3,008.3	2,949.7
<b>Minority interests (equity)</b>	27	141.1	136.3	-	-
		(889.1)	(639.9)	3,008.3	2,949.7

Eric Nicoll  
Roger Faxon  
Directors  
20 May 2002

**Statement of Total Recognised Gains and Losses**  
for the year ended 31 March 2002

35

	£m	2002 £m	2001 Restated £m
(Loss) profit for the financial year			
Group		(202.0)	82.3
Joint venture		4.1	3.7
Associated undertakings		(1.6)	(4.0)
(Loss) profit for the financial year – as reported		(199.5)	82.0
Currency translation – Group*	(6.5)		(11.2)
Currency translation – joint venture and associated undertakings	0.5		(0.6)
Other recognised losses		(6.0)	(11.8)
Total recognised gains and losses relating to the year		(205.5)	70.2
Prior-year adjustments		12.2	–
Total gains and losses since last Annual Report		(193.3)	70.2

\*Net currency gains of £1.5m (2001: £13.6m), which relate to foreign currency borrowings to finance investment overseas, and the related tax charge of £nil (2001: £5.5m), have been included within the Group currency translation movement on reserves.

**Reconciliation of Movements in Shareholders' Funds**  
for the year ended 31 March 2002

	£m	2002 £m	2001 Restated £m
Opening shareholders' funds – as reported		(788.4)	(727.6)
Prior-year adjustments (see Note 26)		12.2	15.0
Opening shareholders' funds (restated)		(776.2)	(712.6)
(Loss) profit for the financial year	(199.5)		82.0
Prior-year adjustment	–		(2.8)
Dividends (equity)	(62.2)		(125.2)
Other recognised losses	(8.0)		(11.8)
Goodwill adjustments	9.9		(4.4)
Share of joint venture reserves adjustment	3.6		(2.4)
Shares issued	0.2		1.0
Net decrease in shareholders' funds for the year		(254.0)	(63.6)
Closing shareholders' funds		(1,030.2)	(776.2)

**Consolidated Cash Flow Statement**  
for the year ended 31 March 2002

	Notes	2002 £m	2001 £m
<b>Net cash inflow from operating activities</b>		<b>211.9</b>	314.8
<b>Dividends received from associated undertakings</b>	14	<b>0.7</b>	0.3
<b>Returns on investments and servicing of finance</b>			
Interest received		<b>10.3</b>	15.4
Interest paid		<b>(68.8)</b>	(90.7)
Interest element of finance lease payments		<b>(0.2)</b>	(0.3)
Dividends paid to minorities		<b>(3.3)</b>	(25.2)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(62.0)</b>	(100.8)
<b>Tax paid</b>		<b>(22.3)</b>	(48.5)
<b>Capital expenditure and financial investment</b>			
Purchase of music copyrights	11	<b>(10.6)</b>	(6.4)
Purchase of tangible fixed assets	13	<b>(39.2)</b>	(42.8)
Sale of tangible fixed assets		<b>10.1</b>	17.8
Purchase of investments: own shares	15	<b>(1.9)</b>	(1.2)
Purchase of other fixed asset investments	14	<b>-</b>	(1.2)
Sale of other fixed asset investments		<b>0.1</b>	0.4
Purchase of associated undertakings	14	<b>(3.6)</b>	(0.8)
Loans repaid by (made to) associated undertakings	14	<b>0.8</b>	(11.2)
Disposal of associated undertakings		<b>1.9</b>	-
<b>Net cash outflow from capital expenditure and financial investment</b>		<b>(42.4)</b>	(45.4)
<b>Acquisitions and disposals</b>			
Purchase of businesses net of cash acquired	31	<b>(22.6)</b>	(10.8)
Deferred consideration paid		<b>(1.4)</b>	(3.9)
<b>Net cash outflow from acquisitions and disposals</b>		<b>(24.0)</b>	(14.7)
<b>Equity dividends paid</b>		<b>(125.3)</b>	(125.2)
<b>Net cash outflow before management of liquid resources and financing</b>		<b>(63.4)</b>	(19.5)
Issue of Ordinary Share capital		<b>0.2</b>	1.0
Management of liquid resources	20	<b>5.1</b>	38.9
Financing:			
New loans	20	<b>460.3</b>	240.1
Loans repaid	20	<b>(458.6)</b>	(312.5)
Capital element of finance leases repaid	20	<b>(1.1)</b>	(1.2)
<b>Net cash inflow (outflow) from management of liquid resources and financing</b>		<b>5.9</b>	(33.7)
<b>Decrease in cash</b>	20	<b>(57.5)</b>	(53.2)

**Reconciliation of Group operating (loss) profit to net cash inflow from operating activities**

	Notes	2002 £m	2001 £m
Group operating (loss) profit		<b>(101.0)</b>	237.5
Depreciation charge	13	<b>51.0</b>	57.0
Amortisation charge:			
Music copyrights	11	<b>43.5</b>	42.6
Goodwill	12	<b>6.0</b>	9.5
Fixed asset write-down	13	<b>1.1</b>	–
Goodwill write-down – subsidiaries	12	<b>29.3</b>	–
Goodwill write-down – associated undertakings	14	<b>8.5</b>	–
Associate write-down	14	<b>7.0</b>	–
Amounts provided	24	<b>107.2</b>	14.1
Provisions utilised:			
Disposals and fundamental reorganisations	24	<b>(12.5)</b>	(7.4)
Other		<b>(16.9)</b>	(23.6)
Decrease (increase) in working capital:			
Stock		<b>2.6</b>	(4.6)
Debtors		<b>63.9</b>	(104.6)
Creditors		<b>22.2</b>	94.3
<b>Net cash inflow from operating activities</b>		<b>211.9</b>	314.8

## Accounting Policies

### Basis of preparation

The consolidated financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. The results for the years ended 31 March 2002 and 31 March 2001 represent continuing operations.

The geographic segments shown in Note 1 have been revised to reflect more accurately the way the business is currently managed. The prior-year comparatives have been restated to reflect this.

### Basis of consolidation

The consolidated financial statements comprise the accounts of the Company and its subsidiaries. The results of all subsidiaries are taken from their accounts made up to 31 March. The results of subsidiaries, joint ventures and associated undertakings disposed of or acquired during the year are included up to, or from, the date that control passes.

### Changes in financial reporting standards

The Accounting Standards Board issued the following Financial Reporting Standards effective for the Company's year ended 31 March 2002: FRS17 – *Retirement Benefits*; FRS18 – *Accounting Policies*; and FRS19 – *Deferred Tax*. The transitional arrangements for FRS17 have been adopted by the Group with effect from 31 March 2002 (see Note 30). FRS18 was adopted by the Group with effect from 1 April 2001 and has had no material impact on the accounts. FRS19 was adopted by the Group with effect from 1 April 2001 and the comparatives for the year ended 31 March 2001 have been restated where appropriate (see Note 26). Significant new accounting policies arising from the adoption of these standards are detailed below.

### Foreign currencies

Transactions denominated in foreign currencies are recorded at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into sterling either at year-end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of profit for the financial year.

On consolidation, average exchange rates have been used to translate the results of overseas subsidiaries, joint ventures and associated undertakings. The assets and liabilities of overseas subsidiaries and associated undertakings are translated into sterling at year-end rates.

Exchange differences arising from the retranslation at year-end exchange rates of:

- (i) the opening net investment in overseas subsidiaries, joint ventures and associated undertakings and foreign currency borrowings in so far as they are matched by those overseas investments; and
  - (ii) the results of overseas subsidiaries, joint ventures and associated undertakings,
- are dealt with in Group reserves.

### Turnover

Turnover represents the invoiced value or contracted amount of goods and services supplied by the Company and its subsidiaries. Turnover excludes value added tax and similar sales-related taxes.

### Pension costs

Pension costs, which are determined in accordance with SSAP24 – *Accounting for Pension Costs*, are charged to the profit and loss account so as to spread the cost of pensions over the working lives of the employees within the Group. Valuation surpluses or deficits are amortised over the expected remaining working life within the Group of the relevant employees (estimated to be eight years in respect of the UK). The amortisation of valuation surpluses is restricted to an amount equal to the regular pension cost. Accordingly, employer expense in respect of the main scheme, which covers employees in the UK, has been taken as £nil for each of the two years ended 31 March 2002 for reasons of conservatism.

### Joint ventures and associated undertakings

Where the Group has an investment in an entity which is sufficient to give the Group a participating interest, and over which it is in a position to exercise significant influence, the entity is treated as an associated undertaking and is accounted for using the equity method. Entities in which the Group holds an interest on a long-term basis and which are jointly controlled by the Group and one or more other parties under a contractual arrangement, are treated as joint ventures and are accounted for using the gross equity method.

The results of joint ventures and associated undertakings are taken from their accounts made up to 31 March or such earlier date (not prior to 31 December) which represents their financial period end, as adjusted for material items that have occurred in the intervening period.

### Goodwill and other intangibles

Goodwill and recorded catalogue intangibles arising on acquisitions made after 31 March 1998 are capitalised and amortised over their expected useful life, principally restricted to 20 years, in accordance with FRS10. They are reviewed for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Goodwill arising on acquisitions made before 31 March 1998 has been charged directly against shareholders' funds in the year of acquisition and is included within the profit and loss reserve, yet separately identified within the reserves note. This goodwill will remain in reserves until, on the disposal or closure of any business, the profit and loss account includes a charge in respect of the goodwill previously written off against shareholders' funds on the acquisition of the business.

### Music copyrights

Music copyrights purchased prior to 1 April 1989 were written off against shareholders' funds on acquisition. Copyrights acquired as a result of acquisitions on or after 1 April 1989 are capitalised as intangible assets in the Group balance sheet, and are amortised by equal annual amounts over not more than 20 years, other than in exceptional circumstances when sufficient ongoing impairment tests can be performed to support a useful economic life of over 20 years. Where a useful economic life of up to 20 years has been adopted, copyrights are reviewed for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

### Advances to artists

Advances to artists and repertoire owners are assessed and the value of the unrecovered portion to be included in debtors is determined by the prospects of future recoupment, based on past sales performance, current popularity and projected sales.

### Leased assets

Assets held under finance leases are included as tangible fixed assets at their estimated purchase cost and depreciated over their expected useful lives, or over the primary lease period, whichever is shorter. The obligations relating to finance leases (net of finance charges allocated to future periods) are included under borrowings due within or after one year, as appropriate. Operating lease rentals are charged to the profit and loss account on a straight-line basis over the lease term.

### Depreciation of tangible fixed assets

Depreciation of tangible fixed assets is calculated on cost at rates estimated to write off the cost, less the estimated residual value of the relevant assets, by equal annual amounts over their expected useful lives; effect is given, where necessary, to commercial and technical obsolescence.

The annual rates used are:

Freehold buildings and long-term leasehold property	2%
Short-term leasehold property	Period of lease
Plant, equipment and vehicles	10 – 33 1/3 %

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

### Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value, less progress payments on uncompleted contracts and provisions for expected losses. Cost includes manufacturing overheads where appropriate.

### Taxation

The Company has undertaken to discharge the liability to corporation tax of the majority of its wholly owned UK subsidiaries. Their UK tax liabilities are therefore dealt with in the accounts of the Company.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events have occurred at that date that will result in an obligation to pay more tax, or right to pay less, or to receive more, tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets.
- Provision is made for gains which have been rolled over into replacement assets only to the extent that, at the balance sheet date, there is a commitment to dispose of the replacement assets.
- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

### Financial instruments

Any premium or discount associated with the purchase of interest rate instruments is amortised over the life of the transaction. Interest receipts and payments are accrued to match the net income or cost with the related finance expense. No amounts are recognised in respect of future periods.

### New media holdings

Holdings in new media companies that arise as a consequence of licensing, distribution and other similar deals with such companies, are carried at cost, which is typically minimal. Income from these holdings, net of costs, is only recognised when received as cash and is treated as other operating income. The costs relating to these investments are held within debtors until they are recognised with the related income.



# Notes to the Financial Statements

for the year ended 31 March 2002

## 1. Segmental analyses

	Turnover £m	Operating profit £m	Operating assets £m	2002 Average employees No.	Turnover £m	Operating profit £m	Operating assets £m	2001 Restated** Average employees No.
<b>By class of business:</b>								
Recorded Music	2,029.4	83.1	44.4	8,644	2,282.0	227.5	224.4	9,388
Music Publishing	416.4	107.8	453.9	626	390.7	105.0	516.9	608
Other (HMV Group plc)	n/a	n/a	(162.9)	n/a	n/a	n/a	(168.3)	n/a
<b>Group*</b>	<b>2,445.8</b>	<b>190.9</b>	<b>335.4</b>	<b>9,270</b>	<b>2,672.7</b>	<b>332.5</b>	<b>573.0</b>	<b>9,996</b>
Operating exceptional items and amortisation*		(291.9)				(95.0)		
<b>Group operating profit*</b>		<b>(101.0)</b>				<b>237.5</b>		
<b>By origin:</b>								
United Kingdom	338.9	59.4	(113.1)	1,423	338.8	43.1	(53.2)	1,557
Rest of Europe	732.0	98.7	(13.1)	2,765	753.4	113.6	6.6	2,790
Latin America	88.1	(2.8)	3.1	422	132.1	12.3	20.1	567
North America	826.3	(2.1)	333.7	2,923	886.5	76.5	486.3	3,138
Asia Pacific	439.8	33.6	118.6	1,522	539.9	81.7	108.8	1,717
Other	20.7	4.1	6.2	215	22.0	5.3	4.4	227
<b>Group*</b>	<b>2,445.8</b>	<b>190.9</b>	<b>335.4</b>	<b>9,270</b>	<b>2,672.7</b>	<b>332.5</b>	<b>573.0</b>	<b>9,996</b>
<b>By destination:</b>								
United Kingdom	337.4				356.3			
Rest of Europe	726.9				721.6			
Latin America	88.9				132.0			
North America	828.6				889.3			
Asia Pacific	440.6				540.0			
Other	23.4				33.5			
<b>Group*</b>	<b>2,445.8</b>				<b>2,672.7</b>			

\*Group turnover and operating profit excludes the Group's share of amounts relating to the joint venture (HMV Group plc) and associated undertakings. Amounts relating to the joint venture have been excluded due to non-terminous period ends.

\*\*The geographic segments have been revised to reflect more accurately the way the business is currently managed. The prior-year comparatives have been restated to reflect this. Latin America was previously included in 'Other'. Australia and New Zealand have been reclassified from 'Other' to Asia Pacific. Asia Pacific includes: turnover of £51.6m (2001: £54.3m); operating profit of £5.6m (2001: £7.1m); operating assets of £(6.1)m (2001: £(5.3)m); and average employees of 153 (2001: 182), relating to Australia and New Zealand.

\*Comprises operating exceptional items of £(242.4)m (2001: £(42.9)m) and amortisation of goodwill and music copyrights of £(49.5)m (2001: £(52.1)m). The split of operating exceptional items and amortisation of goodwill and music copyrights is as follows:

By class of business:	2002 £m	2001 £m	By origin:	2002 £m	2001 £m
Recorded Music	(235.1)	(49.1)	United Kingdom	(19.2)	(9.1)
Music Publishing	(58.8)	(45.9)	Rest of Europe	(53.3)	(15.4)
Other (HMV Group plc)	n/a	n/a	Latin America	(22.2)	(2.3)
<b>Group</b>	<b>(291.9)</b>	<b>(95.0)</b>	North America	(176.0)	(58.4)
			Asia Pacific	(19.0)	(9.3)
			Other	(2.2)	(0.5)
			<b>Group</b>	<b>(281.9)</b>	<b>(95.0)</b>

## The reconciliation of operating assets to net liabilities is as follows:

	Note	2002 £m	2001 £m
Operating assets		335.4	573.0
Tax, dividends and net interest payable		(166.6)	(220.1)
Capital employed		168.8	352.9
Net borrowings	18	(1,057.9)	(992.8)
<b>Net liabilities</b>		<b>(889.1)</b>	<b>(639.9)</b>

## 2. Analysis of profit and loss account

	2002 £m	2001 £m
Cost of sales	<b>1,726.5</b>	1,739.2
Cost of sales is analysed as:		
– normal	<b>1,592.7</b>	1,696.6
– exceptional items and music copyright amortisation	<b>133.8</b>	42.6
Net operating expenses:		
Distribution costs	<b>127.5</b>	136.9
Administration expenses	<b>708.9</b>	608.5
Other operating income, net	<b>(16.1)</b>	(49.4)
	<b>820.3</b>	696.0
Net operating expenses are analysed as:		
– normal	<b>662.2</b>	643.6
– exceptional items and goodwill amortisation	<b>158.1</b>	52.4

Other operating income principally comprises the Group's share of income from joint marketing arrangements, income from disposal of investments entered into to support distribution, manufacturing and product supply arrangements, net patent income and income from new media investments.

## 3. Group operating profit

	2002 £m	2001 £m
Operating profit is stated after charging:		
Amortisation of music copyrights	<b>43.5</b>	42.6
Amortisation of goodwill	<b>6.0</b>	9.5
Depreciation of tangible fixed assets	<b>51.0</b>	57.0
Operating lease rentals:		
Property	<b>25.3</b>	20.0
Plant, equipment and vehicles	<b>4.7</b>	6.7
Research and development expenditure	<b>0.2</b>	0.1

## 4. Fees to auditors

	2002 £m	2001 £m
Audit fees paid to Ernst & Young	<b>2.1</b>	2.4
Audit fees paid to other firms	<b>0.1</b>	0.2
Other fees paid to Ernst & Young:		
UK	<b>0.3</b>	3.5
Non-UK	<b>1.2</b>	1.6
Total	<b>3.7</b>	7.7

Other fees include £0.7m (2001: £0.7m) paid to Ernst & Young for tax compliance and planning services, £0.8m (2001: £0.2m) for accountancy advice and £nil for other consultancy (2001: £3.7m in connection with the proposed merger with Warner Music Group).

## 5. Directors' and employees' costs

	2002 £m	2001 £m
Wages and salaries	<b>390.0</b>	383.4
Social security costs	<b>52.0</b>	48.4
Other pension costs (see Note 30)	<b>13.9</b>	14.5
Total	<b>455.9</b>	446.3

Details of each Director's remuneration, compensation for loss of office, pension entitlements, long-term incentive scheme interests and share options are included in the Remuneration Report on pages 24 to 29.

# Notes to the Financial Statements

continued

## 6. Finance charges

	£m	2002 £m	£m	2001 £m
Interest payable on:				
Bank overdrafts and loans	55.9		76.4	
Other	15.0		8.0	
		70.9		84.4
Interest receivable on:				
Bank balances	(2.7)		(6.4)	
Other	(7.8)		(3.7)	
		(10.5)		(10.1)
Group finance charges (including associated undertakings)		60.4		74.3
Joint venture finance charges (HMV Group plc)		22.8		29.3
Total finance charges		83.2		103.6

Other interest payable of £15.0m includes a non-periodic cost of £3.6m, being arrangement and underwriting fees paid in respect of the new £1.3bn bank facility signed on 18 March 2002.

The Group holds various financial instruments in order to manage interest rate risk. Details of those financial instruments held at the year end are given in Note 19(viii) on page 53.

Finance charges for associates are £nil (2001: £nil).

## 7. Taxation

	2002 £m	2001 Restated £m
<b>(i) Analysis of tax charge in the year</b>		
Current tax:		
UK corporation tax	10.8	14.4
Advance corporation tax written back on ordinary activities	(20.6)	(12.0)
Double taxation relief	(6.7)	(7.5)
	(16.5)	(5.1)
Withholding tax	12.1	15.6
Other foreign tax	36.4	58.5
Adjustment in respect of prior periods	(4.3)	(4.2)
Joint venture	7.4	1.4
Total current tax	35.1	66.2
Deferred tax:		
Origination and reversal of timing differences	2.6	4.5
Others:		
Associated undertakings	0.5	0.2
Tax on profit on ordinary activities	38.2	70.9
<b>(ii) Factors affecting current tax charge for year</b>		
(Loss) profit on ordinary activities before tax	(152.8)	162.8
Tax at weighted average rate	(59.6)	59.5
Effects of:		
Expenses not deductible for tax purposes	43.4	32.4
Timing differences	(6.0)	3.5
Utilisation of tax losses and other credits	(36.3)	(41.8)
Origination of tax losses	85.8	1.2
Withholding taxes and other	7.8	11.4
Current tax for the period	35.1	66.2
<b>(iii) Factors that may affect future tax charges</b>		

No provision has been made for deferred tax where potentially taxable gains have been rolled over into replacement assets, except where there is a commitment to dispose of these assets. Such gains would only become taxable if the assets were sold without it being possible to claim roll-over relief or offset existing capital losses. The Group does not expect any tax to become payable in the foreseeable future.

No deferred tax has been recognised in respect of tax on gains arising from the revaluation of fixed assets, as the Group is not committed to the disposal of these assets. No deferred tax has been recognised in respect of the earnings of overseas subsidiaries as no dividends have been accrued.

Deferred tax assets which have not been recognised are tax losses and credits with a value of £172.4m, depreciation in advance of capital allowances with a value of £14.6m, and other timing differences with a value of £71.6m, as there is insufficient certainty as to the availability of future taxable profits.

**8. Dividends (equity)**

	2002 Per share	2001 Per share	2002 £m	2001 £m
Ordinary dividends (net):				
Interim	4.25p	4.25p	33.5	33.5
Adjustment to 2002 and 2001 interim	—	—	(0.2)	(0.3)
Proposed final	3.75p	11.75p	29.6	92.7
Adjustment to 2001 and 2000 final	—	—	(0.7)	(0.7)
<b>Total</b>	<b>8.00p</b>	<b>16.00p</b>	<b>62.2</b>	<b>125.2</b>

The final dividend of 3.75p per share will be paid on 1 October 2002 to shareholders on the register at the close of business on 6 September 2002.

**9. Exceptional items****(I) Operating exceptional items**

	2002 £m	2001 £m
Restructuring and reorganisation costs:		
Headcount reduction	(93.7)	—
Roster reduction*	(69.4)	—
Impact of economic downturn in Latin America*	(16.7)	—
Restructuring of satellite label activity**	(40.5)	—
Asset impairment and other**	(22.1)	—
Proposed merger with Warner Music Group — deal costs	—	(42.9)
<b>Total operating exceptional items</b>	<b>(242.4)</b>	<b>(42.9)</b>

\*Includes £39.3m relating to the termination of the recording contract with Mariah Carey.

\*\*Resulted in significantly increased returns and bad debts.

\*\*\*Including goodwill (£23.6m) and associate investment (£15.5m) write-offs.

\*\*\*Including goodwill (£5.7m) and relocation and other costs (£16.4m).

The attributable taxation credit relating to operating exceptional items is £7.8m (2001: £nil).

**(II) Non-operating exceptional items**

Non-operating exceptional items are £nil (2001: £nil).

**10. Earnings per Ordinary Share**

	2002	2001 Restated
Basic earnings per Ordinary Share is calculated as follows:		
Earnings	£(199.5)m	£79.2m
Weighted average number of Ordinary Shares in issue	782.8m	782.3m
Earnings per Ordinary Share	(25.5)p	10.1p
Diluted earnings per Ordinary Share is calculated as follows:		
Earnings	£(199.5)m	£79.2m
Adjusted weighted average number of Ordinary Shares	783.6m	783.1m
Earnings per Ordinary Share	(25.5)p	10.1p
Adjusted basic earnings per Ordinary Share is calculated as follows:		
Adjusted earnings	£92.1m	£171.8m
Weighted average number of Ordinary Shares in issue	782.8m	782.3m
Adjusted earnings per Ordinary Share	11.8p	22.0p
Adjusted diluted earnings per Ordinary Share is calculated as follows:		
Adjusted earnings	£92.1m	£171.8m
Adjusted weighted average number of Ordinary Shares	783.6m	783.1m
Adjusted earnings per Ordinary Share	11.8p	21.9p
Adjusted earnings are included as they provide a better understanding of the underlying trading performance of the Group on a normalised basis.		

**Reconciliation of adjusted earnings**

	Year ended 31 March 2002		Year ended 31 March 2001 Restated	
	£m	Per share	£m	Per share
Earnings/basic EPS	(199.5)	(25.5)p	79.2	10.1p
Adjustments:				
Operating exceptional items	242.4	31.0p	42.9	5.5p
Non-operating exceptional items	—	—	—	—
Share of operating exceptional items in joint venture	10.3	1.3p	—	—
Share of exceptional finance charges in joint venture	2.1	0.3p	—	—
Amortisation of goodwill and music copyrights	51.3	6.5p	53.8	6.9p
Attributable taxation	(7.8)	(1.0)p	—	—
Minority interest (re music copyright amortisation)	(4.3)	(0.5)p	(4.1)	(0.5)p
Minority interest (re operating exceptional items)	(5.3)	(0.7)p	—	—
Minority interest (re attributable taxation)	2.9	0.4p	—	—
Adjusted earnings/adjusted EPS	92.1	11.8p	171.8	22.0p
Adjusted dilution impact	n/a	—	n/a	(0.1)p
Adjusted earnings/adjusted diluted EPS	92.1	11.8p	171.8	21.9p

The adjusted weighted average number of Ordinary Shares used in the diluted earnings per share calculations, 783.6m (2001: 783.1m), is the weighted average number of Ordinary Shares in issue, 782.8m (2001: 782.3m), plus adjustments for dilutive share options, 0.8m (2001: 0.8m).

**11. Music copyrights**

Group	£m
Cost at 31 March 2001	848.3
Currency retranslation	(1.6)
Acquisition of businesses	6.6
Additions	10.6
Reclassification	0.1
<b>Cost at 31 March 2002</b>	<b>864.0</b>
Amortisation at 31 March 2001	301.5
Currency retranslation	(0.1)
Charge for year	43.5
Reclassification	0.9
<b>Amortisation at 31 March 2002</b>	<b>345.8</b>
<b>Net book values at 31 March 2002</b>	<b>518.2</b>
31 March 2001	546.8

**12. Goodwill (capitalised)****Group**

	£m
Cost at 31 March 2001	72.5
Goodwill written-off to exceptional items	(42.0)
Acquisition of businesses	8.2
<b>Cost at 31 March 2002</b>	<b>38.7</b>
Amortisation at 31 March 2001	11.4
Goodwill written-off to exceptional items	(12.7)
Charge for year	6.0
<b>Amortisation at 31 March 2002</b>	<b>4.7</b>
<b>Net book values at 31 March 2002</b>	<b>34.0</b>
31 March 2001	61.1

**13. Tangible fixed assets****Group**

	Freehold property £m	Leasehold property £m	Plant, equipment and vehicles £m	Total £m
Cost at 31 March 2001	220.3	38.4	350.0	608.7
Currency retranslation	(7.5)	—	(7.4)	(14.9)
Acquisition of businesses	—	—	0.1	0.1
Additions	9.4	4.5	25.3	39.2
Disposals	(8.8)	(0.9)	(31.1)	(40.8)
Write-down to exceptional items	(1.2)	—	(2.7)	(3.9)
Reclassification	(3.1)	(4.7)	7.4	(0.4)
<b>Cost at 31 March 2002</b>	<b>209.1</b>	<b>37.3</b>	<b>341.6</b>	<b>588.0</b>
Depreciation at 31 March 2001	38.3	23.0	240.6	301.9
Currency retranslation	(1.9)	—	(6.4)	(8.3)
Charge for year	5.1	3.3	42.6	51.0
Disposals	(2.9)	(0.4)	(27.4)	(30.7)
Write-down to exceptional items	(0.3)	—	(2.5)	(2.8)
Reclassification	(1.7)	(3.5)	4.8	(0.4)
<b>Depreciation at 31 March 2002</b>	<b>36.6</b>	<b>22.4</b>	<b>251.7</b>	<b>310.7</b>
<b>Net book values at 31 March 2002</b>	<b>172.5</b>	<b>14.9</b>	<b>89.9</b>	<b>277.3</b>
31 March 2001	182.0	15.4	109.4	306.8

Freehold property includes land having a cost of £83.4m (2001: £86.3m) which is not depreciated.

**Group**

	2002 £m	2001 £m
The net book values shown above include the following:		
Long-term leasehold property	8.1	7.9
Short-term leasehold property	6.8	7.5
Finance lease assets	3.5	4.8
Assets in the course of construction	7.0	11.9

**Company**

	Freehold property £m	Leasehold property £m	Plant, equipment and vehicles £m	Total £m
Cost at 31 March 2001	10.8	3.9	18.5	33.2
Additions	—	0.7	1.0	1.7
Disposals and transfers	(2.4)	—	(3.6)	(6.0)
<b>Cost at 31 March 2002</b>	<b>8.4</b>	<b>4.6</b>	<b>15.9</b>	<b>28.9</b>
Depreciation at 31 March 2001	2.0	1.4	12.6	16.0
Charge for year	0.3	0.2	1.5	2.0
Disposals and transfers	(0.6)	—	(2.1)	(2.7)
<b>Depreciation at 31 March 2002</b>	<b>1.7</b>	<b>1.6</b>	<b>12.0</b>	<b>15.3</b>
<b>Net book values at 31 March 2002</b>	<b>6.7</b>	<b>3.0</b>	<b>3.9</b>	<b>13.6</b>
31 March 2001	8.8	2.5	5.9	17.2

# Notes to the Financial Statements

continued

## 14. Fixed asset investments

	2002 £m	Group 2001 £m	2002 £m	Company 2001 £m
Investments comprise:				
Subsidiary undertakings	-	-	2,386.7	2,316.5
Joint venture (HMV Group plc)	-	-	96.5	96.5
Associated undertakings	7.1	26.0	0.6	0.6
Other fixed asset investments	22.4	22.6	0.2	0.2
	29.5	48.6	2,484.0	2,413.8
Joint venture (HMV Group plc)	(159.9)	(168.3)	-	-
	(130.4)	(119.7)	2,484.0	2,413.8
Listed investments	-	-	-	-
Unlisted investments	(130.4)	(119.7)	2,484.0	2,413.8
	(130.4)	(119.7)	2,484.0	2,413.8

The market value of listed investments at 31 March 2002 was £nil (2001: £nil).

### (I) Investments in subsidiary undertakings

#### Company

	Cost of shares £m	Loans £m	Provisions £m	Net book value £m
At 31 March 2001	2,030.8	406.2	(120.5)	2,316.5
Additions	-	74.4	-	74.4
Disposals, transfers and other movements	(3.8)	(0.4)	-	(4.2)
At 31 March 2002	2,027.0	480.2	(120.5)	2,386.7

Details of significant subsidiary undertakings are set out in Note 34 on page 63.

### (II) Joint venture (HMV Group plc)

#### Group

	Net equity investment £m	Goodwill written off £m	Share of net assets £m	Provisions* £m	Net book value £m
At 31 March 2001	95.2	(262.5)	(167.3)	(1.0)	(168.3)
Prior-year adjustment*	3.6	-	3.6	-	3.6
Net profit	4.1	-	4.1	-	4.1
Exchange taken to reserves	0.7	-	0.7	-	0.7
At 31 March 2002	103.6	(262.5)	(158.9)	(1.0)	(159.9)

\*The provision of £1.0m represents the elimination of the Group's share of unrealised profits in HMV Group plc's stocks.

\*Represents the Group's share of a prior-year adjustment made in HMV Group. This adjustment relates to HMV Group's adoption of FRS19 - Deferred Tax.

#### Company

	Cost of shares £m	Loans £m	Provisions £m	Net book value £m
At 31 March 2001	96.5	-	-	96.5
At 31 March 2002	96.5	-	-	96.5

The Company holds investments at cost, less provisions for diminution in value.

**14. Fixed asset investments (continued)****(II) Joint venture (HMV Group plc) (continued)****Share of net liabilities****Group**

	2002 £m	2001 £m
Fixed assets	<b>61.5</b>	73.1
Current assets	<b>141.8</b>	118.8
Total assets	<b>203.3</b>	191.9
Short-term liabilities	<b>(176.5)</b>	(170.2)
Long-term liabilities	<b>(186.7)</b>	(190.0)
Total liabilities	<b>(363.2)</b>	(360.2)
Share of net liabilities	<b>(159.9)</b>	(168.3)

**(III) Associated undertakings****Group**

	Net equity investment £m	Goodwill written off £m	Share of net assets £m	Capitalised goodwill £m	Loans £m	Net book value £m
At 31 March 2001	41.6	(43.4)	(1.8)	10.3	17.5	26.0
Currency retranslation	(0.2)	—	(0.2)	—	—	(0.2)
Additions* and new loans	1.9	—	1.9	1.7	(0.8)	2.8
Net losses after tax	(1.6)	—	(1.6)	(1.8)	—	(3.4)
Dividends	(0.7)	—	(0.7)	—	—	(0.7)
Disposals/provisions	(1.9)	—	(1.9)	—	—	(1.9)
Written-off to exceptional items	(7.0)	—	(7.0)	(8.5)	—	(15.5)
<b>At 31 March 2002</b>	<b>32.1</b>	<b>(43.4)</b>	<b>(11.3)</b>	<b>1.7</b>	<b>16.7</b>	<b>7.1</b>

\*Total consideration on purchase of associated undertakings comprises costs and loans totalling £1.9m (2001: £0.8m).

**Company**

	Cost of shares £m	Provisions £m	Net book value £m
At 31 March 2001	0.7	(0.1)	0.6
<b>At 31 March 2002</b>	<b>0.7</b>	<b>(0.1)</b>	<b>0.6</b>

The Company holds investments at cost, less provisions for diminution in value.

**(IV) Other fixed asset investments**

	Cost of shares £m	Provisions £m	Group Net book value £m	Cost of shares £m	Provisions £m	Company Net book value £m
At 31 March 2001	29.1	(6.5)	22.6	2.5	(2.3)	0.2
Currency retranslation	(0.1)	—	(0.1)	—	—	—
Additions	—	—	—	—	—	—
Disposals and reclassifications	(0.1)	—	(0.1)	—	—	—
<b>At 31 March 2002</b>	<b>28.9</b>	<b>(6.5)</b>	<b>22.4</b>	<b>2.5</b>	<b>(2.3)</b>	<b>0.2</b>



# Notes to the Financial Statements

continued

## 15. Investments: own shares

The EMI Group General Employee Benefit Trust (EBT) was established to hedge the future obligations of the Group in respect of shares awarded under the Senior Executive Incentive Plan (SEIP), the EMI Music Long-Term Incentive Plan and other share-based plans. The Trustee of the EBT, EMI Group EBT (Guernsey) Limited, purchases the Company's Ordinary Shares in the open market with financing provided by the Company, as required, on the basis of regular reviews of the anticipated share liabilities of the Group. The EBT has, since December 1998, waived any entitlement to the receipt of dividends in respect of all of its holding of the Company's Ordinary Shares. The EBT's waiver of dividends may be revoked or varied at any time.

The cost of the shares expected to be awarded under each plan is amortised over the period from the original grant of the particular award to the time of vesting. This is normally a period of not less than three years.

### Group and Company

	Shares held in trust No.	Nominal value £m	Cost £m	Amortisation £m	Net book value £m
At 1 April 2001	6,110,610	0.9	28.1	(13.7)	14.4
Shares purchased	531,337	—	1.9	—	1.9
Awarded by the EBT	(1,375,952)	(0.2)	(5.7)	5.7	—
Amortisation in the period	—	—	—	(3.2)	(3.2)
<b>At 31 March 2002</b>	<b>5,265,995</b>	<b>0.7</b>	<b>24.3</b>	<b>(11.2)</b>	<b>13.1</b>

At 31 March 2002, the outstanding loan by the Company to the EBT to finance the purchase of Ordinary Shares was £24.6m (2001: £29.7m). The market value at 31 March 2002 of the Ordinary Shares held in the EBT, which are listed in the UK, was £19.0m (2001: £27.8m).

## 16. Stocks

	2002 £m	Group 2001 £m	2002 £m	Company 2001 £m
Raw materials and consumables	13.8	14.9	—	—
Work in progress	2.5	0.6	—	—
Finished goods	26.7	30.6	—	—
<b>Total</b>	<b>43.0</b>	<b>46.1</b>	<b>—</b>	<b>—</b>

## 17. Debtors

	2002 £m	Group 2001 £m	2002 £m	Company 2001 £m
Due within one year:				
Trade debtors	386.7	428.3	1.4	1.0
Amounts owed by subsidiary undertakings	—	—	1,169.9	1,168.9
Amounts owed by associated undertakings	0.3	0.1	—	—
Amounts owed by joint venture (HMV Group plc)	13.1	8.3	—	—
Corporate taxation recoverable	14.1	29.0	—	15.6
Other debtors	104.9	115.9	3.6	0.6
Prepayments and accrued income	244.6	287.3	1.2	0.6
	<b>763.7</b>	<b>868.9</b>	<b>1,176.1</b>	<b>1,186.7</b>
Due after more than one year:				
Corporate taxation recoverable	2.3	2.2	—	—
Other debtors	23.9	18.8	0.6	0.7
Prepayments and accrued income	107.6	94.4	—	—
<b>Total</b>	<b>133.8</b>	<b>115.4</b>	<b>0.6</b>	<b>0.7</b>
<b>Total</b>	<b>897.5</b>	<b>984.3</b>	<b>1,176.7</b>	<b>1,187.4</b>

Other debtors due within one year includes £1.5m (2001: £0.3m) book value of listed investments with a market value of £5.1m (2001: £4.8m).

**18. Borrowings**

	2002 £m	Group 2001 £m	2002 £m	Company 2001 £m
<b>Long-term borrowings</b>				
Loans	374.1	467.5	-	-
Finance leases	2.0	2.6	-	-
Less: repayable within one year	(2.8)	(2.6)	-	-
<b>Total long-term borrowings</b>	<b>373.3</b>	<b>467.5</b>	-	-
<b>Short-term borrowings</b>				
Loans and overdrafts	767.4	659.0	-	-
Finance leases	0.8	1.3	-	-
Short-term element of long-term loans	2.8	2.6	-	-
<b>Total short-term borrowings</b>	<b>771.0</b>	<b>662.9</b>	-	-
<b>Total borrowings</b>	<b>1,144.3</b>	<b>1,130.4</b>	-	-
Liquid funds:				
Investments: liquid funds	(0.7)	(0.7)	-	-
Cash at bank and in hand and cash deposits	(85.7)	(136.9)	(6.5)	(37.4)
<b>Net borrowings</b>	<b>1,057.9</b>	<b>992.8</b>	<b>(6.5)</b>	<b>(37.4)</b>

Long-term borrowings include £18.4m (2001: £111.5m) of borrowings repayable within one year, which are drawings under long-term committed facilities and, therefore, have been classified as such.

Under their banking arrangements, overdraft and cash balances of the Company and of certain subsidiaries are pooled or offset and cross-guaranteed. Such pooling and offsets are reflected in the Group balance sheet as appropriate.

Group borrowings include £2.8m (2001: £3.9m) which is secured on assets held under finance leases and £350.8m proceeds from a US\$500m issue of 10-year Guaranteed Notes in August 1999.

The Group has cash balances of £11.9m held with banks within the UK and £74.5m held with banks outside, but freely transferable to, the UK.

**Maturity analysis of long-term borrowings**

	2002 £m	Group 2001 £m	2002 £m	Company 2001 £m
Amounts falling due after more than one year are repayable as follows:				
Between one and two years	2.8	115.0	-	-
Between two and five years	19.7	1.9	-	-
After five years:				
By instalments	-	-	-	-
Other	350.8	350.6	-	-
	<b>373.3</b>	<b>467.5</b>	-	-

The amount of debt, any of which falls due for payment after more than five years, is £350.8m (2001: £350.6m).

The Group has taken a number of steps to refinance its bank facilities. In April 2002, a new £1.3bn multi-currency revolving credit facility, with maturities up to three years, was drawn to repay and cancel most of the existing short-term bank facilities. In May 2002, the Group issued a £250m six-year bond, which refinanced part of the revolving credit facility. See Note 19(v) on page 52 for further details.

# Notes to the Financial Statements

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## 19. Derivatives and other financial instruments

The Group has excluded all short-term debtors and creditors from the following disclosures, other than currency exposures.

### (i) Interest rate risk profile of the financial liabilities of the Group

Currency	At 31 March 2002				At 31 March 2001			
	Total* £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Financial liabilities on which no interest is paid £m	Total* £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Financial liabilities on which no interest is paid £m
Sterling	16.8	6.6	–	10.2	10.0	0.1	–	9.9
US dollar	603.9	578.6	–	25.3	563.3	518.3	–	45.0
Yen	141.3	46.2	92.7	2.4*	149.6	48.8	98.1	2.7*
Euro	320.1	320.0	–	0.1	364.2	308.3	55.9	–
Swedish krona	66.6	66.6	–	–	84.8	84.8	–	–
Danish krone	1.5	1.5	–	–	–	–	–	–
Other	32.1	32.1	–	–	16.1	16.1	–	–
<b>Total</b>	<b>1,182.3</b>	<b>1,051.6</b>	<b>92.7</b>	<b>38.0</b>	<b>1,188.0</b>	<b>976.4</b>	<b>154.0</b>	<b>57.6</b>

\*Excludes short-term creditors as permitted by FRS13.

\*Represents deposits from retailers. The deposits are repayable when trading ceases and therefore there is no fixed term to maturity.

Currency	At 31 March 2002			At 31 March 2001		
	Fixed rate financial liabilities Weighted average interest rate %	Weighted average period for which rate is fixed Years	Financial liabilities on which no interest is paid Weighted average period until maturity Years	Fixed rate financial liabilities Weighted average interest rate %	Weighted average period for which rate is fixed Years	Financial liabilities on which no interest is paid Weighted average period until maturity Years
Sterling	–	–	2.2	–	–	3.4
US dollar	–	–	6.1	–	–	4.4
Yen	0.4	2.0	n/a*	0.7	1.5	n/a*
Euro	–	–	1.5	4.1	0.5	–

\*Represents deposits from retailers. The deposits are repayable when trading ceases and therefore there is no fixed term to maturity.

Floating rate financial liabilities comprise bank borrowings and the proceeds of a US\$500m issue of 10-year Guaranteed Notes swapped to floating rate funding. All floating rate financial liabilities bear interest at rates fixed in advance by reference to the applicable bank reference rate in the relevant country for periods ranging from overnight to six months.

The figures shown in the tables above take into account various interest rate and currency swaps used to manage interest rate risk and the currency profile of financial liabilities. Further protection from interest rate movements is provided by interest rate caps and collars. See Note 19 (viii) on page 53 for further details of interest rate collars and swaps held as at 31 March 2002.

### (ii) Interest rate risk profile of the financial assets of the Group

Currency	At 31 March 2002				At 31 March 2001			
	Total* £m	Floating rate financial assets £m	Fixed rate financial assets £m	Financial assets on which no interest is paid* £m	Total* £m	Floating rate financial assets £m	Fixed rate financial assets £m	Financial assets on which no interest is paid* £m
Sterling	56.8	11.0	–	45.8	49.8	17.2	–	32.6
US dollar	80.9	6.8	–	74.1	77.0	9.3	–	67.7
Yen	39.2	21.2	–	18.0	50.5	34.7	–	15.8
Euro	34.2	24.7	–	9.5	45.4	36.6	–	8.8
Swedish krona	2.5	–	–	2.5	1.4	0.1	–	1.3
Danish krone	1.1	1.1	–	–	0.1	0.1	–	–
Other	32.0	21.6	–	10.4	50.6	39.6	–	11.0
<b>Total</b>	<b>246.7</b>	<b>86.4</b>	<b>–</b>	<b>160.3</b>	<b>274.8</b>	<b>137.6</b>	<b>–</b>	<b>137.2</b>

\*Excludes short-term debtors as permitted by FRS13.

\*Financial assets on which no interest is paid represent mainly advances to artists and investments for which no meaningful average fixed period to maturity can be calculated.

Floating rate financial assets comprise cash at bank and deposits. All floating rate financial assets earn interest at rates fixed in advance by reference to the applicable bank reference rate in the relevant country for periods ranging from overnight to six months.

## 19. Derivatives and other financial instruments (continued)

### (iii) Currency exposures

As explained on page 15 in the Financial Review, the Group's objective in managing currency exposures arising from its net investments overseas (its structural currency exposures) is to maintain appropriate levels of borrowings by currency to hedge partially against currency depreciation. Gains and losses arising from these structural currency exposures are recognised in the statement of total recognised gains and losses.

The table below shows the Group's currency exposures, being those trading assets and liabilities (or non-structural exposures) that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating (or functional) currency of the operating unit involved, other than certain non-sterling borrowings treated as hedges of net investments in overseas operations. These exposures were as follows:

#### At 31 March 2002

Functional currency of Group operation	Sterling £m	US dollar £m	Net foreign currency monetary assets (liabilities)		
			Yen £m	Euro £m	Other £m
Sterling	n/a	8.6	4.8	22.9	18.2
US dollar	4.9	n/a	0.1	0.1	(2.8)
Yen	(0.3)	(0.1)	n/a	–	0.2
Euro	1.8	(1.1)	0.1	n/a	1.6
Other	(2.8)	2.6	–	(0.3)	0.9
<b>Total</b>	<b>3.6</b>	<b>10.0</b>	<b>5.0</b>	<b>22.7</b>	<b>18.1</b>

#### At 31 March 2001

Functional currency of Group operation	Sterling £m	US dollar £m	Net foreign currency monetary assets (liabilities)		
			Yen £m	Euro £m	Other £m
Sterling	n/a	4.5	31.2	28.2	62.1
US dollar	0.7	n/a	–	0.2	0.4
Yen	(0.3)	(0.1)	n/a	–	0.5
Euro	1.0	(2.0)	0.1	n/a	1.5
Other	(4.4)	3.9	0.2	0.3	1.1
<b>Total</b>	<b>(3.0)</b>	<b>6.3</b>	<b>31.5</b>	<b>28.7</b>	<b>65.6</b>

### (iv) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities, other than short-term creditors such as trade creditors and accruals, was as follows:

	2002 £m	2001 £m
In one year or less, or on demand	771.0	662.9
In more than one year but not more than two years	9.6	124.7
In more than two years but not more than five years	40.4	32.3
In more than five years	361.3	368.1
<b>Total</b>	<b>1,182.3</b>	<b>1,188.0</b>

**19. Derivatives and other financial instruments (continued)****(v) Undrawn facilities**

The Group has various borrowing facilities available to it. The undrawn committed facilities available at 31 March in respect of which all conditions precedent had been met at that date were as follows:

	2002 £m	2001 £m
Expiring in one year or less	491.9	320.8
Expiring in more than one year but not more than two years	21.6	108.0
Expiring in more than two years	-	40.0
<b>Total</b>	<b>513.5</b>	<b>468.8</b>

On 18 March 2002 the Group signed a new bank facility. This £1.3bn multi-currency revolving credit facility was drawn for the first time in April 2002 and was used to repay most of the Group's existing bank facilities. The new facility comprises a £800m 3-year revolving credit and a £500m short-term bridging arrangement, part of which was itself refinanced in May 2002 by the issue of £250m 8¼% bonds due May 2008. The £123m proceeds from the HMV Group flotation received in May 2002 were used to repay and cancel a corresponding amount of the new facility.

**(vi) Fair values of financial assets (liabilities)**

	Book value £m	2002 Fair value* £m	Book value £m	2001 Fair value* £m
<b>Primary financial instruments held or issued to finance the Group's operations:</b>				
Short-term borrowings and current portion of long-term borrowings	(771.0)	(771.0)	(662.9)	(662.9)
Long-term borrowings	(373.3)	(369.4)	(467.5)	(503.2)
Liquid funds	86.4	86.4	137.6	137.6
Other financial liabilities	(38.5)	(38.5)	(57.6)	(57.6)
<b>Derivative financial instruments held to manage the interest rate and currency profile:</b>				
Interest rate swaps	n/a	20.5	n/a	23.0
Interest rate caps and collars	-	(6.8)	-	(1.5)
Currency swaps and forward foreign currency contracts	n/a	-	n/a	0.1
<b>Financial assets:</b>				
Financial assets – listed investments	1.5	5.1	0.3	4.8
Financial assets – other	158.8	158.8	136.9	136.9

\*Market rates have been used to determine fair values.

Long-term borrowings include a US\$500m issue of 10-year Guaranteed Notes (book value £350.8m) with a fair value of £346.9m. The Group holds equivalent US dollar nominal value interest rate swaps matching the coupon on the notes, effectively converting the interest basis of the issue to floating rate. At 31 March 2002 these swaps had a fair value of £21.0m (2001: £23.5m). The majority of other borrowings and liquid funds are short-term in nature and book values approximate to fair values. The market value of listed investments is given above. For all other financial assets and liabilities, book values approximate to fair values. During the year a profit of £3.3m was made on the sale of current asset investments (2001: £11.4m).

**(vii) Hedges**

As explained in the Financial Review on page 15, the Group's policy is to hedge interest rate risk, using interest rate swaps, caps and collars. Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	Gains £m	Losses £m	Total net gains (losses) £m
Unrecognised gains and losses on hedges at 1 April 2001	1.4	(3.4)	(2.0)
Gains and losses arising in previous years that were recognised in 2002	0.4	(0.8)	(0.4)
Gains and losses arising before 1 April 2001 that were not recognised in 2002	1.0	(2.6)	(1.6)
Gains and losses arising in 2002 that were not recognised in 2002	(0.7)	(5.0)	(5.7)
<b>Unrecognised gains and losses on hedges at 31 March 2002</b>	<b>0.3</b>	<b>(7.6)</b>	<b>(7.3)</b>
<b>Of which:</b>			
Gains and losses expected to be recognised in 2003	-	(1.2)	(1.2)
Gains and losses expected to be recognised in 2004 or later	0.3	(6.4)	(6.1)
	<b>0.3</b>	<b>(7.6)</b>	<b>(7.3)</b>

# 19. Derivatives and other financial instruments (continued)

## (viii) Financial instruments

### Interest rate agreements

To manage interest rate risk, the Group has entered into certain interest rate collar and swap agreements which, as at 31 March 2002, were as follows:

	Notional principal	Termination date	
Interest rate collars:			
US dollar	\$450m	March 2003 to February 2004	
Euro	€290m	February 2003 to April 2003	
	Notional principal	Termination date	Fixed rate
Interest rate swaps:			
Yen – pay fixed rate and receive floating rate	¥17.5bn	October 2002	0.65%
Yen – pay fixed rate and receive floating rate (starts October 2002)	¥17.5bn	April 2004	0.29%
US dollar – pay floating rate and receive fixed rate	\$500m	August 2009	8.38%

### Exchange rate agreements

There are no outstanding exchange rate agreements as at 31 March 2002.

# Notes to the Financial Statements

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## 20. Cash, liquid resources and financing

The following definitions have been used:

**Cash:** Cash in hand and deposits repayable on demand if available within 24 hours without penalty, including overdrafts.

**Liquid resources:** Investments and deposits, other than those included as cash, which are readily convertible into known amounts of cash.

**Financing:** Borrowings, less overdrafts which have been treated as cash.

### Analysis of movement in the Group's net borrowings in the year ended 31 March 2002

	At 1 April 2001 £m	Cash flow £m	Acquisitions/ disposals £m	Exchange movement £m	At 31 March 2002 £m
Cash at bank and in hand	130.4	(43.4)	–	(2.6)	<b>84.4</b>
Overdrafts	(25.6)	(14.1)	(1.0)	–	<b>(40.7)</b>
Cash	104.8	(57.5)	(1.0)	(2.6)	<b>43.7</b>
Debt due after more than one year	(464.9)	93.3	–	0.3	<b>(371.3)</b>
Debt due within one year	(636.0)	(95.0)	–	1.5	<b>(729.5)</b>
Finance leases	(3.9)	1.1	–	–	<b>(2.8)</b>
Financing	(1,104.8)	(0.6)	–	1.8	<b>(1,103.6)</b>
Investments: liquid funds	0.7	–	–	–	<b>0.7</b>
Cash deposits	6.5	(5.1)	–	(0.1)	<b>1.3</b>
Liquid resources	7.2	(5.1)	–	(0.1)	<b>2.0</b>
Total	(992.8)	(63.2)	(1.0)	(0.9)	<b>(1,057.9)</b>

Cash flow on financing of £(0.6)m is split between new loans of £(460.3)m, loans repaid of £458.6m and the capital element of finance leases repaid of £1.1m.

### Analysis of movement in the Group's net borrowings in the year ended 31 March 2001

	At 1 April 2000 £m	Cash flow £m	Acquisitions/ disposals £m	Exchange movement £m	At 31 March 2001 £m
Cash at bank and in hand	221.7	(88.0)	–	(3.3)	130.4
Overdrafts	(55.3)	34.8	–	(5.1)	(25.6)
Cash	166.4	(53.2)	–	(8.4)	104.8
Debt due after more than one year	(377.3)	(48.4)	–	(39.2)	(464.9)
Debt due within one year	(751.7)	120.8	–	(5.1)	(636.0)
Finance leases	(4.8)	1.2	–	(0.3)	(3.9)
Financing	(1,133.8)	73.6	–	(44.6)	(1,104.8)
Investments: liquid funds	1.3	(0.5)	–	(0.1)	0.7
Cash deposits	44.9	(38.4)	–	–	6.5
Liquid resources	46.2	(38.9)	–	(0.1)	7.2
Total	(921.2)	(18.5)	–	(53.1)	(992.8)

Cash flow on financing of £73.6m is split between new loans of £(240.1)m, loans repaid of £312.5m and the capital element of finance leases repaid of £1.2m.

### The Group's net borrowings at 31 March 2002 comprised:

	Cash £m	Liquid resources and financing £m	Net borrowings £m
Investments: liquid funds	–	0.7	0.7
Cash at bank and in hand and cash deposits	84.4	1.3	85.7
Borrowings due within one year	(40.7)	(730.3)	(771.0)
Borrowings due after more than one year	–	(373.3)	(373.3)
<b>At 31 March 2002</b>	<b>43.7</b>	<b>(1,101.6)</b>	<b>(1,057.9)</b>
At 31 March 2001	104.8	(1,097.6)	(992.8)

**21. Other creditors: amounts falling due within one year**

	2002 £m	Group 2001 Restated* £m	2002 £m	Company 2001 Restated* £m
Trade creditors	181.2	168.7	1.7	2.0
Royalties and fees payable	678.5	672.6	-	-
Amounts owed to subsidiary undertakings	-	-	4.1	4.8
Amounts owed to associated undertakings	1.7	0.6	0.6	0.6
Amounts owed to joint venture (HMV Group plc)	0.1	-	-	-
Corporate taxation*	160.2	170.3	23.2	23.8
Other taxes including VAT and social security costs	16.5	17.7	0.2	0.5
Dividends payable	29.6	92.7	29.6	92.7
Other creditors*	89.8	97.9	1.0	1.1
Accruals and deferred income	139.5	137.6	17.8	5.0
<b>Total</b>	<b>1,297.1</b>	<b>1,358.1</b>	<b>78.2</b>	<b>130.5</b>

\*Reported corporate taxation as at 31 March 2001 was Group £146.3m and Company £10.8m. The restated balances include an adjustment for FRS19 - Deferred Tax.

\*Includes deferred consideration payable of £2.0m (2001: £1.5m).

**22. Other creditors: amounts falling due after more than one year**

	2002 £m	Group 2001 £m	2002 £m	Company 2001 £m
Amounts owed to subsidiary undertakings	-	-	597.0	574.0
Corporate taxation	-	-	-	-
Deferred consideration payable	10.3	9.8	-	-
Accruals and deferred income	17.1	19.1	-	-
<b>Total</b>	<b>27.4</b>	<b>28.9</b>	<b>597.0</b>	<b>574.0</b>

**23. Deferred taxation**

	Group £m	Company £m
At 1 April 2001	27.6	13.0
Restatement under FRS 19	(44.4)	(13.0)
At 1 April 2001 (as restated)	(16.8)	-
Provided in year	2.6	-
Exchange movements	0.5	-
<b>At 31 March 2002</b>	<b>(13.7)</b>	<b>-</b>

The liabilities (assets) for deferred tax provided were as follows:

	2002 £m	Group 2001 Restated £m	2002 £m	Company 2001 Restated £m
Capital allowances in advance of depreciation	4.2	4.3	-	-
Other timing differences	(0.8)	(0.7)	-	-
<b>Total liability</b>	<b>3.4</b>	<b>3.6</b>	<b>-</b>	<b>-</b>
Depreciation in advance of capital allowances	(3.3)	(3.1)	-	-
Other timing differences	(13.8)	(17.3)	-	-
<b>Total asset</b>	<b>(17.1)</b>	<b>(20.4)</b>	<b>-</b>	<b>-</b>
<b>Net asset</b>	<b>(13.7)</b>	<b>(16.8)</b>	<b>-</b>	<b>-</b>

Those categories for which no deferred tax is provided are outlined in the accounting policies note on page 39.



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## 24. Other provisions for liabilities and charges

### Group

	Trading £m	Pensions £m	Disposal and fundamental reorganisation £m	Acquisition and integration £m	Total £m
At 31 March 2001	26.4	37.0	16.5	36.8	116.7
Currency retranslation	(0.2)	(0.5)	—	0.5	(0.2)
Provisions utilised	(7.7)	(8.9)	(12.5)	(0.3)	(29.4)
Charged against:					
Operating profit	102.2	5.0	—	—	107.2
Non-operating exceptional items	—	—	—	—	—
Acquisition (disposal) of businesses	—	—	—	(21.6)	(21.6)
Reclassification	0.4	—	—	—	0.4
<b>At 31 March 2002</b>	<b>121.1</b>	<b>32.6</b>	<b>4.0</b>	<b>15.4</b>	<b>173.1</b>

The pension provisions arise in overseas companies in respect of state schemes and employees covered by the Group's unfunded schemes.

Trading provisions include royalty audit and other trading provisions charged through operating profit before exceptional items, and restructuring and reorganisation provisions charged through operating exceptional items.

Provisions utilised relating to disposals and fundamental reorganisations in the cash flow include £12.5m spent against disposal provisions set up in previous years.

### Company

	Trading £m	Pensions £m	Disposal and fundamental reorganisation £m	Acquisition and integration £m	Total £m
At 31 March 2001	2.4	—	13.6	—	16.0
Provisions utilised	(1.1)	—	(0.1)	—	(1.2)
Charged against operating profit	6.3	—	—	—	6.3
Transferred to Group companies	(1.2)	—	(9.5)	—	(10.7)
<b>At 31 March 2002</b>	<b>6.4</b>	<b>—</b>	<b>4.0</b>	<b>—</b>	<b>10.4</b>

**25. Share capital and share premium account****Group and Company**

	2002 £m	Authorised 2001 £m	2002 £m	Allotted, called-up & fully paid 2001 £m
Ordinary Shares of 14p each	158.8	158.8	110.4	110.4
B Shares of 114.5p each	479.8	479.8	-	-
Deferred shares of 0.0005p each	17.5	17.5	-	-
	656.1	656.1	110.4	110.4

**(i) Ordinary Shares in Issue**

	Number	Nominal value £m	Premium £m
At 31 March 2001	788,553,751	110.4	445.6
Shares issued during the year on the exercise of options:			
Executive Schemes	-	-	-
Savings-Related Scheme	44,182	-	0.2
At 31 March 2002	788,597,933	110.4	445.8

**(ii) Share options**

Options to subscribe for the Company's Ordinary Shares were outstanding as follows (adjusted for the 1992 rights issue, the 1996 demerger and the 1997 share capital reorganisation, where appropriate):

**Subscription Options**

	Executive Share Option Schemes	Savings-Related Share Option Scheme 1994 Scheme
At 31 March 2001		
Granted	7,504,623	1,434,698
Exercised	7,806,717	786,613
Lapsed	-	(44,182)
	(387,497)	(735,139)
At 31 March 2002	14,923,843*	1,441,990
Option price per 14p share (range)	14p-747p	371p-466p
Final exercise dates*	February 2012	February 2007

\*Of which, options over 689,637 shares were granted under the 1984 Executive Share Option Scheme.

Share options for the transfer of the Company's Ordinary Shares were outstanding as follows:

**Transfer Options**

	Executive Share Option Schemes
At 31 March 2001	
Granted	-
Exercised	19,437,555
Lapsed	-
At 31 March 2002	19,437,555
Option price per 14p share (range)	300p-700p
Final exercise dates*	February 2012

\*Options granted under the 1984 Executive Share Option Scheme are normally exercisable no earlier than three years and no later than ten years following the date of grant, as are options granted under the 1995 Executive Share Option Scheme (which are, however, subject to the achievement of performance requirements that must be met before the options normally become exercisable). Options granted under the 1994 Savings-Related Share Option Scheme are normally exercisable for a six-month period following completion of savings to either a three-year or a five-year savings contract.

**(iii) Share premium account**

The principal elements that make up the Company's share premium account arose as follows:

**Group and Company**

	Years arising	£m
Conversions to Ordinary Shares of 7% Convertible Redeemable Second Cumulative Preference Shares 1992/99 of £1 each	1989/90 and 1990/91	56.7
A placing of Ordinary Shares linked to the offer for Thames Television	1990/91	78.0
Issue of Ordinary Shares on exercise of subscription rights of warrants originally attached to 7% bonds due 1992; and		
the transfer from other reserves in respect of amounts paid for the warrants exercised	1991/92	67.1
Issue of Ordinary Shares on conversion of Convertible Unsecured Loan	1991/92	10.2
Stock to fund the acquisition of Virgin Music Group		
Issue of Ordinary Shares on conversion of 5% Guaranteed Redeemable Preference Shares 2004 of THORN EMI Capital NV	1992/93	508.4
Share capital reorganisation (including issue of Redeemable Preference B Shares)	1993/94	126.0
Other issues of Ordinary Shares	1997/98	(501.2)
		100.6
Balance at 31 March 2002		445.8

# Notes to the Financial Statements

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## 26. Reserves

	Group			Company		
	Capital redemption reserve £m	Other reserves £m	Profit and loss reserve £m	Capital redemption reserve £m	Other reserves £m	Profit and loss reserve £m
At 31 March 2001 – as reported	495.8	256.0	(2,096.2)	495.8	456.9	1,441.0
Prior-year adjustments:						
Deferred tax	–	–	44.4	–	–	–
Current tax	–	–	(24.0)	–	–	–
Minority interest	–	–	(8.2)	–	–	–
At 31 March 2001 – restated	495.8	256.0	(2,084.0)	495.8	456.9	1,441.0
Currency translation	–	–	(6.0)	–	–	3.0
Goodwill adjustments:						
Subsidiary undertakings	–	–	9.9	–	–	–
Profit attributable to members of the Holding Company	–	–	(199.5)	–	–	117.6
Equity dividend	–	–	(62.2)	–	–	(62.2)
Share of joint venture reserves adjustment	–	–	3.6	–	–	–
Transfer of realised reserves	–	–	–	–	(20.5)	20.5
<b>At 31 March 2002</b>	<b>495.8</b>	<b>256.0</b>	<b>(2,338.2)</b>	<b>495.8</b>	<b>436.4</b>	<b>1,519.9</b>

Group reserves include £(3.3)m (2001: £(9.2)m) in respect of its share of post-acquisition retained losses of joint venture and associated undertakings.

Other reserves of the Company relate to a special reserve which reflects the share premium account reduction of July 1988 and unrealised profits on disposal of investments.

In accordance with the exemption permitted by S230(3) of the Companies Act 1985, the profit and loss account of the Company is not separately presented. The profit attributable to shareholders, dealt with in the accounts of the Company, is £117.6m (2001: £68.7m).

The Group profit and loss reserve includes £1,449.0m (2001: £1,458.9m) in respect of goodwill previously written off.

## 27. Minority Interests (equity)

Group	2002 £m	2001 Restated* £m
Toshiba-EMI Ltd (Japan)*	69.2	65.3
Jobete Music Co., Inc. (USA)	66.2	69.3
Other	5.7	1.7
<b>Total</b>	<b>141.1</b>	<b>136.3</b>

\*The reported minority interest as at 31 March 2001 was £128.1m. The restated balance of £136.3m includes an adjustment of £8.2m to the Toshiba-EMI Ltd minority interest which relates to the adoption of FRS19 – Deferred Tax.

## 28. Financial commitments

### Group

	2002 £m	2001 £m
Capital expenditure: Contracted	25.6	28.2

The Group has commitments, which are largely performance-related, to pay advances to artists and repertoire owners amounting to £418.8m at 31 March 2002 (2001: £363.5m). Under the shareholders' agreement relating to the Group's 50% shareholdings in Jobete Music Co., Inc. and Stone Diamond Music Corporation, during the period of 10 years commencing on 1 July 2002, the other shareholder has the option to require EMI to purchase its shares for a consideration calculated by reference to the combined net publisher's share of the two companies in the preceding year, with a minimum price of US\$168m and a maximum price of US\$250m. The option may be exercised earlier in certain circumstances.

### Annual commitments under operating leases at 31 March were as follows:

	2002 £m	Group 2001 £m	2002 £m	Company 2001 £m
Land and buildings:				
Expiring in the first year	8.3	5.8	—	—
Expiring in the second to fifth years inclusive	5.9	11.2	0.3	—
Expiring after the fifth year	13.6	5.7	3.4	—
Total	27.8	22.7	3.7	—
Plant, equipment and vehicles:				
Expiring in the first year	1.4	2.2	—	—
Expiring in the second to fifth years inclusive	3.2	3.2	0.2	—
Expiring after the fifth year	0.1	—	—	—
Total	4.7	5.4	0.2	—

## 29. Contingent liabilities

Certain Group companies, along with other recorded music distributors, are subject to civil lawsuits in the United States alleging violations of antitrust, unfair trade practices and consumer protection laws. These actions include (i) lawsuits brought by retailers, which are currently pending in federal court in California, alleging that the major record companies violated federal antitrust laws in setting wholesale prices of CDs, (ii) 10 identical class action lawsuits filed in various state courts on behalf of consumers in those states containing allegations similar to those in the California federal case, (iii) actions in federal court in Maine brought on behalf of consumers of 50 states by respective state attorneys general and by private attorneys, alleging violations of antitrust, unfair trade practices and consumer protection statutes in connection with the retail pricing of CDs, including, in particular, so-called minimum advertised price (MAP) policies, and (iv) numerous class action lawsuits, filed in various state courts, on behalf of consumers of those states, containing allegations similar to those in the Maine federal case. The Directors believe the Group has legal and factual defences to these claims. Adverse verdicts in these matters, however, could result in material losses to EMI.

Virgin Holdings, Inc., a wholly-owned subsidiary of the Group, is subject to several class action lawsuits in the US alleging that, as a result of allegedly false and misleading statements concerning the licensing agreement between Virgin Holdings, Inc. and musicmaker.com, Inc. (musicmaker), the price of musicmaker's stock was artificially high. A number of similar actions have subsequently been filed and they are all being handled in a consolidated proceeding. EMI Group, EMI Recorded Music and EMI Recorded Music North America have also been named in these proceedings. On the basis of information presently available, the Directors believe that these claims are unlikely to result in material loss to the Group. However, adverse verdicts could result in material loss to the Group.

The Group is also involved in various other legal proceedings, principally in the US and UK, arising out of the normal course of business. The Directors believe that the outcome of these other proceedings will not have a material effect on the Group's financial position.

Guarantees and other contingent liabilities (other than those relating to HMV and HMV Group plc – see below) total £22.3m (2001: £24.1m) for the Group, of which £7.2m (2001: £8.8m) relate to certain contracts entered into by former Group companies. There are several guarantees and other contingent liabilities in respect of HMV and HMV Group plc (see Note 32 on page 62 for details).

## Notes to the Financial Statements

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### 30. Pension arrangements

The Group operates a number of pension schemes throughout the world. The main scheme, which covers employees in the UK, is the EMI Group Pension Fund (the UK Fund). The UK Fund is of the defined benefit type and is open to all permanent employees over the age of 18 employed by the Company and certain subsidiaries in the UK. Benefits provided by the UK Fund are based on final pensionable pay. Pensions payable from the UK Fund are guaranteed to increase by 5% per annum or, if a lower rate, by the increase in the cost of living. Members contribute to the UK Fund at the rate of 4% of pensionable pay.

Aside from the UK, the Group has significant defined benefit schemes in Germany and Japan. With the exception of these schemes, the other defined benefit schemes operated on behalf of the Group are not material. The currently agreed rates of contribution by the Group are nil for all significant defined benefit schemes.

Staff engaged in other countries are covered by local arrangements which, in the case of the Group schemes, are of the defined contribution type. The assets of the Group's pension schemes are held mainly in separate trustee-administered funds.

Employer contributions of £13.8m (2001: £14.4m) were charged to the profit and loss account in the year. These contributions primarily related to overseas schemes and were determined in accordance with local practice. Other post-retirement benefit expenses of £0.1m (2001: £0.1m) were also charged to the profit and loss account.

Provision is made in the financial statements for the benefits accruing to members of unfunded pension schemes in accordance with the advice of independent actuaries.

The latest available actuarial valuation of the UK Fund was made by a qualified actuary as at 31 March 2000 using the projected unit method. At that date the market value of the assets of the UK Fund was taken to be £1,079m. The market value of the assets was sufficient to cover 11.7% of the value of the benefits that had accrued to the members, after allowing for assumed increases in earnings, on the actuarial assumptions used, treating the UK Fund as an ongoing entity. Part of the excess assets disclosed by the 2000 valuation has been used to finance a special increase of 3% to pensions in payment and part has been allocated towards a reduction of employer contributions below the long-term rate, with the balance being carried forward as a reserve in the UK Fund.

Employer expense in respect of the Fund has been calculated in accordance with Statement of Standard Accounting Practice 24 – *Accounting for Pension Costs* (SSAP24). On the basis of actuarial advice, it is calculated that the employer expense would represent a credit to the profit and loss account on full application of SSAP24 principles. However, for reasons of conservatism, such expense has been taken as £nil for the two years ended 31 March 2002. The long-term financial assumptions used to calculate employer expense under SSAP24 are shown below:

	Growth relative to investment return % per annum
Rate of investment return	5-6
Rate of pay increases	5
Rate of pension increases	3
Rate of price inflation	3

These rates included allowance for the effects of the tax credit changes introduced by the Finance (No. 2) Act 1997.

The most recent full actuarial valuations of the other two significant defined benefit schemes were carried out as follows: Germany on 1 April 2001 and Japan on 31 October 2000.

The additional disclosures required by FRS17 are set out below.

The most recent full actuarial valuations have been updated to 31 March 2002 by qualified independent actuaries.

	United Kingdom %	Germany %	Japan %
<b>Major assumptions</b>			
Rate of general increase in salaries	4.5	4.5	3.4-6.0
Rate of increase to pensions in payment	2.5	2.0	nil
Rate of increase to deferred pensions	2.5	2.0	nil
Discount rate for scheme liabilities	5.75	6.0	2.75
Inflation	2.5	2.0	nil

### 30. Pension arrangements (continued)

The market values of the assets of the three significant defined benefit plans at 31 March 2002 were as follows:

	United Kingdom Market value £m	Germany Market value £m	Japan Market value £m
<b>Market value of assets*</b>			
Equities	583.0	—	3.0
Bonds	279.0	—	3.2
Other	11.0	0.8	36.9
Present value of scheme liabilities	(805.0)	(26.1)	(56.7)
Surplus (deficit) in the schemes	68.0	(25.3)	(13.6)
Pension asset before deferred tax	68.0	(25.3)	(13.6)
Deferred tax	(20.4)	9.6	5.7
Amount provided to cover scheme deficit	n/a	26.5	1.4
Impact on reserves	47.6	10.8	(6.5)

\*The expected long-term rate of return on the assets is as follows:

United Kingdom	7.2% (equities 8.0%, bonds 5.5%, other 4.5%)
Germany	5.5%
Japan	2.75% (equities 5.9%, bonds 2.5%, other 2.5%)

### 31. Purchase of businesses

Acquisitions during the year included Dino (a recorded music company in Holland), Poko (a recorded music company in Finland), Celebrity (a recorded music company in the US), a 60% stake in Insight (a recorded music company in the UK) and a 50% stake in Tooth and Nail (a music business in the US). The combined fair value to the Group is as follows:

	Book value of assets acquired £m	Adjustments £m	Fair value to the Group £m
Music copyrights	—	6.6	6.6
Fixed assets	0.1	—	0.1
Stocks	0.1	—	0.1
Debtors	6.2	(0.7)	5.5
Creditors	(5.4)	—	(5.4)
Borrowings	(1.0)	—	(1.0)
Tax	0.2	0.1	0.3
Minority interests	(0.2)	(3.3)	(3.5)
Net assets acquired (before cash)	—	2.7	2.7
Goodwill capitalised			8.9
Provisions for future earnout liabilities			—
<b>Net cash consideration on acquisitions during the year</b>			<b>11.6</b>
Net cash consideration on prior-years' acquisitions			11.0
<b>Net cash consideration</b>			<b>22.6</b>
Satisfied by:			
Total consideration			22.7
Future earnout provisions			—
Cash consideration			22.7
Net cash acquired			(0.1)
<b>Net cash consideration</b>			<b>22.6</b>

The adjustments to book value of £2.7m were made to bring the valuation of the assets acquired in line with the Group's accounting policies.

All acquisitions have been accounted for using the acquisition method.

### 32. Related party transactions

The Company has taken advantage of the exemption under Financial Reporting Standard 8 – *Related Party Disclosures* not to disclose related party transactions between Group subsidiary undertakings. The Group had several transactions with other related parties during the year.

#### (i) HMV and HMV Group plc

##### Year to 31 March 2002

As part of the sale in 1998 of the companies and assets comprising HMV to HMV Group plc (HMV Group) the Company acquired a 45.2% equity stake, and 50% of the Junior Preference Shares, in HMV Group for £87.5m.

An additional £25m, in the form of deferred consideration, was to be receivable on (inter alia) a listing of any part of the share capital of HMV Group on any recognised stock exchange, or 28 March 2003. In addition, an amount of up to £25m further consideration was to be receivable if Advent International Corporation and related investors achieved a specified return on their investment in HMV Group on a listing. As a result of additional equity and preference share issues during 1999 by HMV Group, in which the Company subscribed £9m for additional ordinary and preference shares, at 31 March 2002, the Company owned a 42.65% (39.90% fully diluted) equity stake in HMV Group, and 18.08% and 49.15%, respectively, of HMV Group's Senior 'A' Preference Shares and Junior Preference Shares. The Group also made available to HMV Group a £50m working capital revolving credit facility (the EMI Revolving Credit Facility), no part of which was drawn during the year.

As part of the 1998 transaction, the Group also entered into an indemnity deed with HMV Group relating, among other things, to guarantees given by the Group of approximately 99 leases. Under the deed, HMV Group agreed to indemnify the Group against any payments made under those and certain other guarantees and indemnities. HMV Group undertook to use reasonable efforts to arrange for the release of these guarantees. The aggregate annual rental payments under guaranteed leases are approximately £27.5m, although they are subject to adjustment both up and down under certain circumstances. The guaranteed leases have terms which expire in one to 24 years, and many of the leases expire in years beyond 2012. All of HMV Group's obligations to the Group in respect of the EMI Revolving Credit Facility and indemnity deed were secured under a debenture.

During the year ended 31 March 2002, companies within the Group made sales of £82.3m (2001: £80.4m) to companies within HMV Group. At 31 March 2002, a total of £13.1m (2001: £8.3m) was due to companies within the Group from companies in HMV Group.

##### Post-balance sheet event

On 15 May 2002, HMV Group's shares were admitted to listing on the London Stock Exchange, pursuant to a global offer which involved the Company selling part of its holding of ordinary shares in HMV Group. The Company also granted UBS Warburg an over-allotment option, at the offer price of 192p per HMV Ordinary Share, in respect of further ordinary shares in HMV Group.

The net cash proceeds payable to EMI as a result of the flotation comprise the following elements, namely £69.4m, representing (i) the deferred and contingent consideration payable to EMI by HMV Group on its listing under the terms of 1998 sale agreement between EMI and HMV Group, as described above, and (ii) the redemption of the Company's holding of senior preference shares in HMV Group, together with £72.9m in respect of ordinary shares in HMV Group sold by the Company in the global offer.

EMI would also receive a further sum of £40m if the over-allotment option was exercised in full. Depending on the level of exercise of the over-allotment option, EMI will retain a residual shareholding in HMV Group of between 9.2% and 14.5%. This holding is subject to lock-up arrangements for six months from flotation.

As part of the flotation arrangements, the EMI Revolving Credit Facility has been cancelled. The indemnity deed remains in force in respect of lease guarantees, and HMV Group has secured those obligations pursuant to a security deed, the Company's rights under which rank second behind banks which provide senior credit facilities to HMV Group.

The Group has assigned various trademarks to HMV (IP) Limited including the 'Dog and Gramophone' trademark and HMV acronym in consideration for the payment of £2m over a period of three years. HMV (IP) Limited has licensed back to the Group for no consideration the right to use the 'Dog and Gramophone' trademark on its recorded music products.

#### (ii) Other

As part of the arrangements for the appointment of Alain Levy as Chairman and Chief Executive Officer of EMI Recorded Music, the Group agreed to acquire up to 100% of the shares of Insight Music Limited, which included a 40% shareholding held by Ilchester Investments Ltd, a company controlled by Mr Levy and his family. The agreement was completed in December 2001 and the consideration paid by the Group to Ilchester Investments Ltd was £1.8m including a loan repayment of £0.72m. As part of the transaction the Group also paid the vendor shareholders' professional fees of £114,000.

Also as part of the arrangements for Mr Levy's appointment, the Company agreed to reimburse to Ilchester Investments Ltd rental and certain other payments due in respect of that company's leasehold offices in central London, pending the disposal of the lease, including a sum (expected to be £25,000) in respect of leasehold improvements not recovered in the disposal. Rent and other payments reimbursed or accrued due by the Group to Ilchester Investments Ltd, as at 31 March 2002, totalled £59,400.

### 33. Post-balance sheet events

- (i) The Group completed the acquisition of Mute Ltd on 9 April 2002. The consideration of £23m is payable over a period of four years. A maximum of a further £19m may become payable to the vendors if certain conditions are fulfilled.
- (ii) The Group completed the sale of its 75% shareholding in Disky Communications Europe BV ('Disky') to Hermans Holdings BV on 1 May 2002 for a consideration of £2.5m. Further consideration of up to £6.5m will become receivable by the Group over a period of six years if certain conditions are fulfilled. Mr Kees Hermans, the Managing Director of Disky, is a director of Hermans Holdings BV.
- (iii) Note 32 (i) describes the admission to listing on the London Stock Exchange of HMV Group shares on 15 May 2002 and the impact of that flotation on the Group.

### 34. Significant investments

The businesses set out below are those which were part of the Group at 31 March 2002 and in the opinion of the Directors significantly affected the Group's results and net assets during the year. Except where otherwise stated, the country of incorporation is England, the operations are within the United Kingdom, the shares are in equity share capital and the businesses are wholly owned.

#### Subsidiary undertakings

##### Recorded Music and Music Publishing

Capitol-EMI Music, Inc. (USA)  
 Capitol Records, Inc. (USA)  
 Chrysalis Records Ltd  
 EMI Electrola GmbH & Co. KG (Germany)  
 EMI Entertainment World, Inc. (USA)  
 EMI Music Australia Pty Ltd (Australia)  
 EMI Music France S.A. (France)  
 EMI Music Italy SpA (Italy)  
 EMI Music Publishing Ltd  
 EMI Records Ltd  
 Groupe Virgin Disques S.A. (France)  
 Jobete Music Co., Inc. (USA) (50% owned)\*  
 Priority Records, LLC (USA)  
 Toshiba-EMI Ltd (Japan) (55% owned)  
 Virgin Records America, Inc. (USA)  
 Virgin Records Ltd  
 Virgin Schallplatten GmbH (Germany)

#### Corporate

EMI Group Finance plc  
 EMI Group Holdings (UK) Ltd  
 EMI Group International Holdings Ltd  
 EMI Group North America Holdings, Inc. (USA)  
 EMI Group North America, Inc. (USA)  
 EMI Group Worldwide Ltd  
 Virgin Music Group Ltd\*

\*Held directly by the Company.

\*Jobete Music Co., Inc. has been consolidated as a subsidiary, even though it is only 50% owned, in accordance with section 258(4) of the Companies Act 1985.

#### Joint venture

The principal investment of the Group (and the Company) in the equity share capital of joint ventures at 31 March 2002 was as follows:

	Business	Location <sup>†</sup>	Group & Company equity holding
HMV Group plc	Retail – books & recorded music	England	42.65%

<sup>†</sup>Country of incorporation. The UK and Canada are the principal countries of operation.

At 31 March 2002, the Company held a 42.65% equity stake comprising: 41.10% of the Ordinary Shares; 100% of the 'B' Preferred Ordinary Shares; 18.08% of the Senior 'A' Preference Shares; and 49.15% of the Junior Preference Shares in HMV Group plc.



## Five Year Summary

	2002 £m	2001 Restated £m	2000 £m	1999 £m	1998 Restated £m
<b>Results</b>					
Turnover:					
EMI	2,445.8	2,672.7	2,386.5	2,373.5	2,413.5
Elimination of sales to HMV	n/a	n/a	n/a	n/a	(60.8)
	2,445.8	2,672.7	2,386.5	2,373.5	2,352.7
Other businesses	-	-	-	-	-
<b>Continuing operations</b>	2,445.8	2,672.7	2,386.5	2,373.5	2,352.7
Discontinued operations – HMV	-	-	-	-	956.7
EMI & HMV	2,445.8	2,672.7	2,386.5	2,373.5	3,309.4
Operating profit:					
EMI	190.9	332.5	290.6	269.7	340.9
<b>Continuing operations</b>	190.9	332.5	290.6	269.7	340.9
Discontinued operations – HMV	-	-	-	-	29.6
EMI & HMV	190.9	332.5	290.6	269.7	370.5
Group operating profit before exceptional items and amortisation	190.9	332.5	290.6	269.7	370.5
Share of joint venture operating profit	34.3	34.4	27.7	30.1	-
Share of associates' operating profit	(1.1)	(3.8)	0.8	(0.7)	0.9
Total operating profit before exceptional items and amortisation	224.1	363.1	319.1	299.1	371.4
Operating exceptional items	(242.4)	(42.9)	(4.0)	-	(135.9)
Amortisation of goodwill and music copyrights	(51.3)	(53.8)	(34.6)	(27.3)	(27.0)
	(69.6)	266.4	280.5	271.8	208.5
Non-operating exceptional items:					
Profits (losses) on businesses disposed of or terminated	-	-	(9.9)	3.7	120.8
Profits (losses) on disposal of fixed assets and investments	-	-	52.4	-	-
(Loss) profit before finance charges	(69.6)	266.4	323.0	275.5	329.3
Finance charges	(83.2)	(103.6)	(73.7)	(72.0)	(64.3)
(Loss) profit before taxation	(152.8)	162.8	249.3	203.5	265.0
Taxation	(38.2)	(70.9)	(73.0)	(71.7)	(126.5)
(Loss) profit after taxation	(191.0)	91.9	176.3	131.8	138.5
Minority interests	(8.5)	(12.7)	(17.9)	(9.2)	(6.1)
(Loss) profit attributable to members of the Holding Company	(199.5)	79.2	158.4	122.6	132.4
<b>Operating assets</b>					
Music copyrights	518.2	546.8	521.0	373.6	372.2
Goodwill	34.0	61.1	26.7	11.6	-
Property, plant, equipment and vehicles	277.3	306.8	337.2	348.7	356.1
Fixed asset investments	29.5	48.6	38.0	58.2	56.2
Investments: own shares	13.1	14.4	18.4	19.9	19.5
Stock and debtors, excluding taxation and interest	919.6	994.9	882.9	810.2	885.8
Creditors and provisions, excluding taxation, dividends and interest payable	(1,296.4)	(1,231.3)	(1,106.4)	(1,126.6)	(1,137.1)
Investment in HMV Group plc	(159.9)	(168.3)	(169.0)	(167.5)	8.4
Operating assets	335.4	573.0	548.8	328.1	561.1
<b>Key statistics</b>					
Net borrowings	1,057.9	992.8	921.2	725.2	953.5
Net cash inflow from operating activities	211.9	314.8	246.5	330.3	297.7
Capital expenditure:					
Fixed assets (continuing operations)	39.2	42.8	37.8	44.7	63.5
Fixed assets (discontinued operations)	-	-	-	-	39.5
Total capital expenditure	39.2	42.8	37.8	44.7	103.0
Earnings per Ordinary Share:					
Basic	(25.5p)	10.1p	20.3p	15.7p	16.5p
Adjusted diluted	11.8p	21.9p	19.2p	18.5p	24.9p
Dividends per Ordinary Share	8.0p	16.0p	16.0p	16.0p	16.0p
Return on sales	7.8%	12.4%	12.2%	11.4%	14.1%
Effective tax rate (before exceptional items and amortisation)	30.0%	27.3%	30.0%	30.9%	31.7%
Interest cover – excluding joint venture	4.0x	5.2x	6.9x	7.3x	7.2x
Dividend cover	1.5x	1.4x	1.2x	1.2x	1.6x

Since 1 April 1998, several new accounting standards have been adopted (FRS9 to FRS19) and, where appropriate, comparative results have been restated to reflect the resulting changes in accounting policies and presentation of information.

In accordance with FRS3, following the disposal of HMV on 28 March 1998, discontinued operations includes HMV.

**Financial Calendar****Results announcements**

Interim to 30 September 2002:  
19 November 2002\*  
Final to 31 March 2003:  
20 May 2003\*

**AGMs and Reports**

2002 Annual General Meeting:  
19 July 2002  
2002 Interim Report:  
29 November 2002\*  
2003 Report and Accounts:  
13 June 2003\*  
2003 Annual General Meeting:  
18 July 2003\*

**Dividend payment dates**

2002 final: payable on  
1 October 2002 to  
shareholders on the  
register of members at  
the close of business on  
6 September 2002  
2003 interim: payable on  
28 February 2003\* to  
shareholders on the  
register of members at  
the close of business on  
31 January 2003\*

**\*Proposed dates****Lloyds TSB Registrars**

Questions about shareholdings,  
or changes of address or any  
other particulars, should be  
sent to:

*Lloyds TSB Registrars, Shareholder  
Services, The Causeway, Worthing,  
West Sussex BN99 6DA, UK.*  
A helpline, available at local  
call rates in the UK only,  
operates during normal office  
hours on 0870 600 3984.  
Shareholders outside the UK  
should call +44 121 433 8000.

**www.shareview.co.uk**

Lloyds TSB Registrars have a  
website at [www.shareview.co.uk](http://www.shareview.co.uk)  
where shareholders can  
view information about their  
shareholdings, as well as find  
information on how to register  
a change of name and what to  
do if a share certificate is lost.  
There are also facilities to  
download change of address,  
dividend mandate and stock  
transfer forms.

**Multiple accounts**

If shareholders receive  
multiple copies of the Group's  
Annual or Interim Reports,  
due to differing name and  
address details, they should  
write to Lloyds TSB Registrars  
requesting that their accounts  
be amalgamated.

**Payment of dividends to bank**

**or building society accounts**  
Shareholders who wish to have  
their dividends paid directly  
into their UK bank or building  
society account, with the  
related tax voucher being  
sent to their registered address,  
should request a dividend  
mandate form from Lloyds  
TSB Registrars.

**Low-cost share dealing****service - NatWest Stockbrokers**

An execution-only service, for  
holders of Ordinary Shares,  
is available for the sale and  
purchase of the Company's  
shares at an attractive  
commission rate. Details about  
this service may be obtained  
from:

*NatWest Stockbrokers, Corporate  
& Employee Services, 55 Mansell  
Street, London E1 8AN, UK;  
Tel: 020 7895 5029;  
e-mail: [amlactes@natwest.com](mailto:amlactes@natwest.com)*

This information has been approved for  
the purposes of section 21(2)(b) of the  
Financial Services and Markets Act 2000  
by NatWest Stockbrokers Limited, which  
is a member of the London Stock  
Exchange and is regulated by the  
Financial Services Authority.

**ShareGift**

If you have a small number of  
EMI Group plc shares, with a  
value that makes it uneconomic  
to sell them, you may donate  
the shares to charity through  
the ShareGift scheme operated  
by The Orr Mackintosh  
Foundation. Further  
information on ShareGift can  
be obtained from their website  
at [www.sharegift.org](http://www.sharegift.org) or by  
calling 020 7337 0501.

**Individual Savings Account**

**(ISA) - Lloyds TSB Bank Plc**  
Lloyds TSB Bank Plc can  
provide a single company ISA  
for EMI Group plc Ordinary  
Shares. Details of this ISA,  
which is only available to  
UK-resident shareholders,  
may be obtained from Lloyds  
TSB Registrars either by  
writing to them at:  
*The Causeway, Worthing,  
West Sussex BN99 6DU,*  
or by calling their ISA helpline  
on 0870 24 24 244.

The publication of this information has  
been approved, for the purposes of  
section 21(2)(b) of the Financial Services  
and Markets Act 2000, by Lloyds TSB  
Bank Plc, part of the Lloyds TSB Group,  
which is regulated by the Financial  
Services Authority.

**Monthly Purchase Plan (MPP) -****Lloyds TSB Bank Plc**

Lloyds TSB Bank Plc provides  
an MPP for EMI Group plc  
Ordinary Shares. Information  
about this MPP may be  
obtained by writing to:  
*Lloyds TSB Registrars Scotland,  
PO Box 28448, Edinburgh  
EH4 1QW,*  
or calling the MPP helpline  
on 0870 60 60 268.

The publication of this information has  
been approved, for the purposes of  
section 21(2)(b) of the Financial Services  
and Markets Act 2000, by Lloyds TSB  
Bank Plc, part of the Lloyds TSB Group,  
which is regulated by the Financial  
Services Authority.

**American Depositary****Receipts (ADRs)**

The Company's ADRs trade on  
the Over-the-Counter market,  
with one American Depositary  
Share (ADS) representing  
two EMI Group plc Ordinary  
Shares. JP Morgan Chase Bank  
is the Depositary for the  
Company's ADSs. Enquiries  
should be directed to:  
*JP Morgan Service Center,  
PO Box 43013, Providence,  
RI 02940-3013, USA;  
Tel: 1-800 428 4237 (toll-free in  
the USA) or 1-781 575 4328;  
Website: [www.adr.com](http://www.adr.com)*

**£/US\$ dividend conversion****facility**

This service enables holders  
of Ordinary Shares who are  
resident in the US to receive  
their dividends in US dollars  
rather than pounds sterling.  
Details of this facility may be  
obtained from:  
*BT Services, PO Box 305050,  
Nashville, Tennessee 37230, USA;  
Tel: 1-615 835 3100.*

**Share sale facility**

Holders of Ordinary Shares,  
who are resident in the  
US and who wish to sell their  
shares, can submit their share  
certificate(s) to:  
*Lloyds TSB Registrars, Shareholder  
Services, The Causeway, Worthing,  
West Sussex BN99 6DA, UK.*

The registrar, after receiving  
a minimum of six applications,  
arranges for all the shares  
represented by the certificates  
received to be sold in one  
transaction. Thereafter, the  
proceeds of the sale, less any  
transaction costs, are split  
amongst the participants  
in proportion to their  
shareholdings and the  
resultant amount remitted  
to each participant in US  
dollars.

The publication of this information has  
been approved, for the purposes of  
section 21(2)(b) of the Financial Services  
and Markets Act 2000, by Lloyds TSB  
Bank Plc, part of the Lloyds TSB Group,  
which is regulated by the Financial  
Services Authority.

**UK capital gains tax**

**information**  
The market value of the  
Ordinary Shares of EMI  
Group plc (then known  
as THORN EMI plc) held  
on 31 March 1982, as adjusted  
for subsequent capitalisation  
issues, was 408.15p per share.

The base cost of EMI Group  
plc Ordinary Shares acquired  
prior to the demerger of  
19 August 1996 will need  
to be apportioned between  
EMI Group plc Ordinary  
Shares of 25p each and Thorn  
plc Ordinary Shares of 25p in  
the proportion 78.8% to 21.2%.

The base cost of EMI Group plc  
Ordinary Shares of 25p each  
acquired or held prior to the  
share capital reorganisation  
of 21 July 1997 will then need  
to be apportioned between  
the new Ordinary Shares of  
14p each and the former B  
Shares of 114.5p each in the  
proportion 89.4% to 10.6%.

**Share price information**

In the UK, the market price  
of EMI Group plc Ordinary  
Shares is available on Ceefax  
and Teletext, or by calling  
the FT Cityline service  
on 0906 843 4214 or  
0906 003 4214 (calls charged  
at 60p per minute).

**Unsolicited mail**

By law, the EMI Group plc  
share register has to be  
available for public viewing.  
If you wish to avoid receiving  
unsolicited mail from other  
organisations, please write to:  
*Mailing Preference Service,  
Freepost 22, London W1E 7EZ,  
or call 08457 034599 for an  
application form.*

**Annual and Interim Reports**

Copies of the Group's previous  
Annual and Interim Reports  
are available from the  
Corporate Communications  
Department at the address  
shown below in italics, or,  
for 1997 onwards, on the EMI  
Group website at the address  
shown under Website/general  
enquiries below.

**Environment Reports and**

**information**  
The Group's Environment  
and Community Report for  
2002 will be available later  
in the year on the EMI Group  
website at the address shown  
below. A printed version of the  
Summary Report and further  
information on environmental  
matters may be obtained from  
the Corporate Communications  
Department at the address  
shown under Website/general  
enquiries below.

**Website/general enquiries**

The EMI Group website  
provides news and financial  
information about the Group,  
as well as its Recorded Music  
and Music Publishing  
businesses, together with links  
to its recorded music labels.

General enquiries may  
be addressed to the  
Corporate Communications  
Department at:  
*EMI Group plc, 4 Tenterden  
Street, Hanover Square, London  
W1A 2AY, UK;  
Tel: 020 7355 4848;  
Callers from outside the UK  
should call: +44 20 7355 4848;  
Website: [www.emigroup.com](http://www.emigroup.com)*

**Analysis of Ordinary Shareholdings at 16 May 2002**

Range	Number of holdings	%	Balance as at 16 May 2002	%
1 to 500	11,441	44.64	2,456,849	0.31
501 to 1,000	6,099	23.80	4,487,014	0.57
1,001 to 10,000	6,900	26.92	15,955,403	2.02
10,001 to 100,000	688	2.69	24,611,949	3.12
100,001 to 1,000,000	362	1.41	121,979,120	15.47
1,000,001 and over	139	0.54	619,107,598	78.51
	25,629	100.00	788,597,933	100.00

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with 75% recycled fibre, comprising  
25% post-consumer waste,  
50% mill broke and 25% ECF  
fibre. The grade is fully recyclable  
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environmental accreditation.





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